

# DISCUSSION PAPER

THEMATISATION AND CANON BUILDING IN  
POST-WAR DEVELOPMENT STUDIES

by

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**TEXT AND CONTEXT IN THE THEMATISATION ON POSTWAR  
DEVELOPMENT**

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## FOREWORD

In the course of the half century since 1945 the ideas and the practice of development have been a theme of academic and public debate. In the succeeding waves of opinion building the term development was stylised by different catch-words : emancipation, nation-building, modernisation, industrialisation, democratisation, and lately globalisation. But in reaction against all forms of Westernisation, we are now witness of an unexpected resurgence of identity politics and of indigenisation. These are in fact novel and fascinating forms of non-Western modernities. On account of the scale of the tale to be told, the writing down of the postwar saga of development studies in a compact volume was a real challenge. My view on this part of intellectual history is a tale of the interplay between the changes in the real world in relation with paradigm-shifts and with the flourishing of different canons. The history of ideas illustrates with ample evidence that canons should better not be imagined and profiled as timeless universals. Like all human artefacts, even the most promising and flourishing canons perish. Like all products of the human mind, they are up to a certain degree context-dependent and thus coded by the values, the norms, the epistemic modes of thought and the historical consciousness prevalent in the society from which they spring. Canons live a cycle of birth, growth and flourishing, followed by decline and re-interpretation. In the course of time, even the most cherished interpretative schemes and canons are like rivers flowing into separate beds.

Our essay exemplifies the historico-concrete context and the problem-centred nature of fifty years of development studies. In the formative years of the 1940s and 1950s these studies were notoriously influenced by the ideological conflict and the geopolitical rivalry between the superpowers, as well as by the intense nationalism of the new nations in the wake of decolonisation. The pioneers in the field were full of ideas and produced a flood of development projects : on Westernisation, Sovietisation and on a more self-reliant approach in the guise of Third Worldism. Since the failure of the communist project of authoritarian planning and the problematic ambition of the Western market democracies to go global, new thematisations flourish. These are pregnant of the neoliberal canon. Besides ideology, divergent paradigms of the social sciences and of economics were at all time important markers. In the course of its career the theorising on development broadened by the inclusion of formerly neglected factors in its horizon such as ethics, culture and religion. Since the beginnings different actors have been spinning cloth in the field of thematisation on development : academics, leading staff members of the United Nations, donors of aid, the World Bank and the IMF, Churches, NGOs and other think-tanks of civil society.

The historian of thought, like other historians cannot completely free himself from the impact of the present on his reading of the past. Up to a certain degree an author's *Sitz im Leben* influences his interpretation of the present. My interest in the problems of 'Economic development and socio-cultural dynamics' dates from 1952, when I followed a summer course on this subject at the University of Guadalajara (Mexico). From 1954 to

1961 I lived in Rwanda, Burundi and Congo where I did field work in combination with a teaching job at the Lovanium University (Kinshasa). In 1961 I became director of the 'Centre for Development Planning' at the Catholic University Leuven. There I conducted research and had a teaching assignment for mainly two courses : *History of Economic Thought* and *Development Studies*. Besides my work in Leuven I had the occasion and the privilege to be a visiting professor in several African, Latin American and Asian universities. The following text has been influenced by context in a double way : by the unfolding of developments in the world at large and by my own experience.

## CHAPTER I : A BIRD'S EYE VIEW

### 1. The genealogy of the discourse

In the recent revival of interest for the history of economic and social theories, the perspectivation of postwar development studies has been relatively neglected. And yet, the historical unfolding of development theorising is a fascinating story that merits more attention. In the historiography of development theorising that follows, we concentrate our attention on the dialectic interplay between the thematisation on development and the geopolitical context ; all this in relation with the ideological overtones of the time and its leading or sanctified canons in economics, in sociology and in geopolitics. Our analysis reflects on the complex dynamics engendered by externally induced impulses toward the modernisation of non-Western societies and their reaction to it. In the course of our story we will demonstrate how the thinking on development is coloured, in one way or another, by the power relations between the centre and the periphery as well as by the at that time intense rivalry between the superpowers. More specifically, we will illustrate how the shifts in the thinking on development were related to ruptures in the historical awareness, concomitant with changes in the real world. In our synthetic bird's eye view, we intend to map out the postwar saga of development thought.

In his celebrated study on scientific revolutions Thomas Kuhn illustrated some epochal paradigm-changes in the development of physics. We agree that Kuhn's approach fits rather good to the development pattern of mature (or so-called *normal*) sciences. For the *social* sciences, where the systems of knowledge and the discursive practices are more dependent on historical contingencies as well as on the multiple, external influences of the real world and of *Zeitgeist*, the dynamic processes of change are more complex. As I see it, the approach of Michel Foucault, the French historian of the human sciences, offers a richer source<sup>1</sup>. His methodology opens the way to uncover not only the gradual evolutions but also the ruptures and the discontinuities in the knowledge systems and discursive practices of the social sciences ; it also explains the coexistence of rival schools of thought. In his extensive studies on the genesis of the social sciences, with his characteristic emphasis on *la naissance du discours*, he illustrates his famous genealogies of novel problematisations. His well-documented studies on the archaeological roots of the nascent thematisations open new horizons which reach beyond the conventional histories of ideas. Foucault is not interested in a mere sequence of ideas and of *epistemes*. He focuses on the contextual synergies leading to the *mise en discours* or on the historical contingencies in the novel problematisation of an issue. He relishes to reveal the contingent forces that at a given moment offer possibilities for the appearance of innovative trends of thought and new styles of thematisation. Foucault's approach highlights the specific circumstances in which the basic categories and concepts emerge at a particular time in history. He further demonstrates how the various *disciplines* of the social sciences shape and in fact *discipline*

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<sup>1</sup> M. Foucault, *The Archeology of Knowledge*, New York, 1972.

our thought and behaviour. Their concepts of man and society, their professional and at times metaphorical vocabularies, their epistemic culture and their ideological overtones, influence the problematisation of upcoming issues as well as the policies to cope with them.

In our essay we follow this line, and we illustrate the contingencies that affect the genesis of new interpretations and canons in the new field of study. We highlight the rise and decline of the thematisations and the development strategies engendered by the leading modes of thought. The complexity of the subject matter invites us to straddle the fields of economics, sociology and political science. We constantly cross borders between theory and practice, between text and context; all this in order to elucidate their dialectical interferences. After a series of breakdowns in modernisation the at times naïve optimism of early developmentism changed into a more critical, postmodern mood. In the view of the nationalist elites, development was a mere paraphrase for Westernisation. And when in the 1980s the neoliberal wave and the globalisation of the Western culture industry spread to the remote corners of the globe, the most alert cultures reacted with an indigenous response of identity politics. The recent trend of critical thought tends to make us more aware of modernity's ambivalence. We more than former generations are conscious of its shadow sides. And indeed, the lofty ideals of emancipation, progress, freedom and also of authentic development, remain unfulfilled promises for too many people.

With the unfolding of development studies, the perspectivation of the state's role in the functioning of the society and of the economy made a U-turn. In the early postwar period ideological and intellectual support for active, socio-political interventionism had pride of place. Since the 1980s this canon and its electoral support has weakened considerably. In our days, the neoliberal creed has eager adepts in the former Soviet empire and even in China. The early postwar modernisation theorists were militants for a speedy transformation of *Gemeinschaft* into *Gesellschaft*. Since the Iranian revolution, the emphasis shifted. Today the geopolitical context and its problematisation are framed by the all-encompassing process of globalisation, not only of the economy but also of Western culture. In reaction to this globalising trend, part of the ongoing thematisation refers increasingly to the politics of identity. With the decline of the marxist alternatives and in the absence of credible challengers, an unintended danger may be that neoliberal thought becomes increasingly dogmatic. Against this dogmatic globalisation we experience an assertive quest for ethnic and cultural identity. In several parts of the world novel forms and expressions of modernity, or should we say postmodernity emerge. These new forms, like Asiatic modernity, Islamic resurgence and the postcolonial indigenisation of Africa, are products of novel expressions of cultural assertivity. The claims of Western rationality to universal legitimacy are gradually undermined by its incapacity to cope with other cultures and with their forms of social rationality.

## 2. The rise of developmentism

The domain of development studies as a branch independent from sociology, economics and political science, is a theoretical product of the early postwar period. The Second World War had transformed the geopolitical scene and the international power relations. During the war, the European nations had dealt themselves a severe blow and the dwarfing of Europe resulted in a power vacuum on the world scene. A new era started wherein two non-European colossi, inspired by conflicting ideologies, profiled themselves as superpowers. Both the United States and the Soviet Union developed their respective spheres of influence according to the sixteenth century principle applied during the religious wars : *cujus regio ejus religio*. In the second half of our century then, a power which conquered and occupied a territory or wielded hegemonic leadership in an area also imposed its own political and economic system.

The development model presented by the United States to its allies was an amalgam of Rooseveltian idealism, Protestant messianism, socio-political liberalism and economic pragmatism. This was tempered by the righteous self-interest of a victorious hegemon. Classical marxism had no specific strategies for development as it proclaimed that Communism would spring from the exhausted well of mature capitalism. In 1945, Stalin's revisionism came to serve as an adequate model for some new nations. The Soviet Union itself had been a 'latecomer' to modernisation and industrialisation ; hence, Stalin's model could pose as a success story of development. Indeed, at the end of the 1940s the model could show fantastic results, achieved in the time-span of only one generation. Consequently, in the early postwar period the socio-political steering, the planning and the administrative ordering of the economic system of the Soviet Union impressed a great number of social(ist) minded intellectuals world-wide. They perceived the Soviet model as a better embodiment of modernisation than capitalism. After the death of Stalin, the epigones began reviling the red tsar and Maoïsm came to pose as a rival marxist model for the developing countries.

In the Western part of the world, groups of reform-minded social scientists sensed the urgent needs of the time and initiated a series of thematisations on the problems of development. In a minimum amount of time, these thematisations matured into a novel tradition of theory building, namely, development studies. Intellectual history indicates that the growth of a theoretical tradition follows a sequence which consists of *thematisation*, followed by *institutionalisation*, and concludes with the phase of *canonisation*, that is, with the hardening of a central theme into a canon<sup>2</sup>. Thematisation is a condensation of elite communication aroused by changes in the historical perspective or by a rupture in collective experience. In the social sciences new thematisations are elicited

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<sup>2</sup> For a more detailed analysis concerning the historical and paradigmatic context of thematisation and canon building, see L. Baeck, *The Mediterranean Tradition in Economic Thought*, London : Routledge, 1994.

by, and become manifest in, the wake of a crisis mood generated by shocks in the historical consciousness. New thematisations produce a quantum leap in elite communication by which the harbingers of novelty and change are identified and cast in a theoretical mould. According to an observable pattern of intellectual history, the issue-focusing of new thematisations is related to radical changes in the real world which may cause ripples, and eventually shocks, in historical awareness. The geopolitical transformations that occurred in the wake of the Second World War, the conflicting ideologies of the two superpowers, and the ensuing wave of decolonisation set the stage for a novel focus of thematisations. In just a few years, these thematisations matured into the new tradition of development studies.

In the ideological climate and the political mood of the early postwar period, the market mechanism stood at a low ebb in public professional opinion as it had so miserably failed during the Depression of the 1930s. Government was called in to master the situation by a deliberate steering of social and economic development. In the industrialised countries of the West, governments, in line with the organised interest-groups, pressed for active and interventionist policies to push economic growth and to spread social welfare. The market economy was supplanted by a mixed economic system, in which the socio-political elite was supposed to correct and redress the shortcomings of the market mechanism. The urge for an active engineering of the rise in living standards spread to the most remote corners of the globe. The latecomers became test cases wherein nation-building, economic growth and modernisation were deemed to be achievable in the time span of one generation. Modernisation and development became the rallying cries of the decolonised peoples, and their rising expectations for a higher standard of living received a favourable response from the power elite in the West. In due course the new focus of thought, called developmentism, gained recognition. The new creed spread to various constituencies and institutions : to the Social Democratic and Christian Democratic parties, the United Nations, the Churches and the non-governmental organisations (NGOs). In some cases, the dialectics of developmentism caused a political stir and interfered in the course of world affairs.

New problems challenge the legitimacy of conventional wisdom, and the ambition to modernise and develop a whole spate of backward nations had no precedent in history. Challenges of this dimension elicit novel thematisations and require new solutions. The sociology of modernisation and development economics were the twin births which responded to the theoretical challenge of the time. But the unfamiliarity of most social scientists with the concrete situation of the new nations led them to posit the historical trajectory of the West as a model. For the sociologists this entailed a refurbishment of the classical modernisation theories, whereas the economists opted for the Keynesian growth models in a tropical dress.

Since the time of the Enlightenment one of the basic tenets of Western philosophy on progress and its liberal theory is that man can alter the existing institutions, the ways of



thinking, the degrees of freedom, the organisational capacity and the basis of material production, by human effort alone. In order to come to an autonomous self, individuals, peoples and nations have to be liberated from the burdening historical shackles, such as tradition, ethnic bonds, past beliefs and the heritage of meaning offered by religion. The new term development expressed this idea unambiguously ; development means after all stepping out of the envelop, this is out of these historical shackles. The modernisers of the early postwar years were looking for scientific evidence to demonstrate to the newcomers how the West had done it.

The new nations, so it was thought, were spared the trouble of choosing their own path of development since the historical model already existed. The basic pattern for these latecomers to development was assumed to be the same as that of the Western forerunners. The concerned economists, sociologists and political scientists epitomised this pattern in a set of central concepts : rapid industrialisation in the economic field, secularisation of ideologies and religions, modernisation of the behaviour patterns, urbanisation, and the adoption of cosmopolitan (i.e., Western) attitudes to facilitate integration into the world culture. Western sociology and economics, themselves children of the Enlightenment and of its rationalistic premise, held that modernisation in the form of industrialisation, secularisation of values, and growing urbanisation of life styles would transform the traditional cultural mosaic of the heterogeneous societies of the Third World into integrated national communities. Modernisation would change the primordial loyalties, the values, the ethnic and linguistic particularities, and other such 'anachronistic' features of the historical latecomers into the basic ingredients necessary for the creation of a civil society. But this promising prophecy did not seduce everyone. There were also the recalcitrant who rejected this path of development as Westernisation, or worse, as neocolonialism under a new guise. In two large countries, China and India, a more nationalistic and ideologically self-reliant line was followed.

In the mainstream version of modernisation, traditional societies and their religious and cultural roots received a negative valuation, whereas modernity was praised as a heavenly kingdom on earth. According to the most narrow view, economic growth and societal modernisation posed only a series of technical problems. For one school of thought a more ample supply of investment capital would automatically generate growth. Others emphasised the crucial role of infrastructure, and still others proclaimed that with the development of education, the shortage in professional skills could be met. Following the brief heyday of confidence in this single-topic approach, there followed a broadening of the horizons. It soon became clear that development is a complex project in which political, social, ethical and cultural factors play a major role. Given this wide diversity of aspects, the single-topic approach of the early days was challenged by opposing views<sup>3</sup>.

During the period from 1945 to approximately the mid-1960s, an abundance of development theories were produced. In the 1960s, the first wave of theorising,

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<sup>3</sup> A. So, *Social Change and Development*, New York, 1990.

propagated by the modernisation and economic growth theories, was met by an intellectual counter-revolution instituted by the Latin American structuralists, that is, the *dependencia* thematisers, and by the neomarxist schools<sup>4</sup>. While founded on conflicting ideological bases, these latter two schools nevertheless shared some basic similarities and shortcomings with their predecessors. The modernisation theorists, who proclaimed the instrumental rationality of the West as a universal model, attempted to silence all other cultures and societies by labelling them as non-rational and particularistic latecomers. The asymmetric power relations and the intellectual colonisation inherent to the modernisation discourse were cautiously wrapped in abstract jargon. On the other side, the *dependencia* and neomarxist schools were not able to overcome their dogmatic concentration on the structural links entailed in the growing integration of the periphery in the capitalist centre. Their myopia had, like the short-sightedness of their opponents, ideological roots. The neomarxists had no eye for the mis-development of Central Europe, nor for the quagmire of the underdeveloped satellites which was caused by 'their' integration into the Soviet empire. However, the two opposing sets of views had one common focus, namely, that external factors largely determine the context of development. In the modernisation school the positive effect of Westernisation was emphasised to the detriment of tradition ; whereas the structuralists focused on the negative effects of the dependency relationship which, in their view, solely functioned to the advantage of the centre.

In the new nations, the first generation after independence was generally guided by charismatic leaders. These helmsmen were adept in the art of bolstering the imagery of the population in states with different ethnic groups, religions, cultures and languages, by masterfully designed campaigns for nation-building. Their campaigns awakened slumbering energies and heightened the historical awareness of a growing number of people. In this process, new elites took over the lead from the traditional authorities. The power base of these charismatic populists rested on broader constituencies than political parties or national bureaucracies ; their constituency was the people. During a highly publicised conference of African and Asian leaders in Bandung (1955), the best known leaders, like Sukarno, Nehru, Nasser and Nkrumah, proclaimed that together they formed a Third World. They flamboyantly declared that the capitalism of the First World and the communism of the Second World therefore did not qualify as models. To order their future they opted for a strategy of their own design. The principles of political non-alignment and of national(ist) self-reliance formed the geopolitical guidelines of Third Worldism.

The 1950s and 1960s were a high tide for development studies. Different schools of thought flowered and produced a series of grand theories. Most of these thematisations

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<sup>4</sup> In the 1950s and 1960s the staff of the Economic Commission for Latin America as well as the Brazilian intelligentsia have been actively and creatively engaged in the thematisation of development. On several issues their heterodox approach clashed with the mainstream version. D. Tussie, *Latin America in the World Economy : New Perspectives*, London, 1983 ; C. Kay, *Latin American Theories of Development and Underdevelopment*, London, 1989.

were elegant but highly abstract models of thought<sup>5</sup>. The shortcomings of the early development theories resulted from their outspoken economic reductionism and their very schematic, ideal-type methodology. Indeed, a great many of these thematisers were armchair theorists without any fieldwork experience. Consequently, their abstract and dogmatic stances ignored the great diversity in the historical, cultural, social and economic context of the developing countries. Their approach failed to produce a grand narrative, enriched by historico-cultural orientations rooted in a moral base. Some colonial administrators, missionaries and researchers, more attentive to indigenous history and culture, had greater success in formulating a more balanced view.

### **3. The turn of the tide**

By the mid-seventies, the international context had changed dramatically. The exuberant economic growth cycle of the core countries in the West had slowed down and a spiralling inflation plagued most of them. In this context of stagflation a new model of growth was initiated, impelled by multinational firms. A cycle of external growth was launched with the relocation of manufacturing industries in the most promising lands of the periphery. The new strategy of the multinational firms entailed a departure from the classic international division of labour, that is, from a world consisting of nation states specialising in activities in which they had a comparative advantage. The older type of economy, marked by the international exchange of raw materials (from the periphery) for manufactured goods (from the centre), was superseded by an interdependent, interacting, global network of manufacturing. A whole spate of New Industrialising Countries (NICs) broke with the conventional division of labour between primary commodity producers and industrialised economies. They opened their frontiers in order to integrate their sectors of manufacturing industries within the Western industrial system. This integration was stimulated by the multinational corporations, who were spinning cloth for the functioning of global networks. In the widely different development situations and trajectories that followed, it became all the more clear that the earlier concept of the 'Third World' had been a 'universalist' label for many different histories and destinies. The nationalist development strategy of Third Worldism proved to be unproductive. The new tune of the time was that of globalisation. In this global vision, policies oriented toward national coherence and self-reliance on the basis of import substitution were losing their political constituencies.

The decentralisation of industrial production and its spread on a global scale, opened new opportunities for those developing countries willing to play according to the rules of the game. This unfolding of a transnational and decentralised market economy was ideologically nurtured, and politically legitimated, by the renaissance of liberalism and steered by its technical handmaidens, namely, neoclassical economics, monetarism, and the theory of public choice. In the 1980s this amalgam matured into a new canon of development. The Soviet empire was unable to resist this global pressure and engineered

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<sup>5</sup> G. Meier & D. Seers, *Pioneers in Development*, Oxford, 1984.

an eleventh hour restructuring. This led to the collapse of the system. In the new geopolitical context, the canon of market democracy embarked on a triumphal worldmarch. The most enthusiastic thematisers launched a new rhetoric on the 'end of history'. The simple typologies, like First, Second and Third World, became inadequate. In an increasingly integrated Western world, the domestic economies became parts of a complex network. In this differentiated context the ideology of Third Worldism declined<sup>6</sup>.

The new course, consisting of the deregulation of the financial markets and the departure from international Keynesianism, challenged the socio-political coalitions that supported the welfare state in the core countries and placed a bridle of drastic structural adjustment on the developing countries. In the countries where easy credit-lines had caused a laxist public policy course, the enforced programs of structural adjustment brought a salutary redirection. At this juncture of theoretical counter-revolution, one of the most influential institutions, namely the World Bank, entered the arena of development thought and started a teach-in on 'good governance'. However, the neoconservative policy reorientation also had negative effects, one of these being that the lower income classes had to shoulder a relatively heavy burden. The social hardships and a deep sense of frustration with the social injustice that became manifest in some countries caused an upsurge of moral indignation in the deep layers of society. With the intention to reduce the social costs of structural adjustment the World Bank launched a new set of compensatory programs for poverty alleviation, the so-called safety nets<sup>7</sup>.

The first culture bomb exploded in Iran, where the Shah had followed a megalomaniac course of Westernisation. The Shi'ite clergy and the traditional lay elite perceived Westernisation as a sort of disease, which was called *Westoxication*<sup>8</sup>. In some of the leading countries of Latin America, a grassroots movement animated by Christian communities took a militant stand against social injustice and the excessive economisation of society. The rebirth of religion as an agent of societal change stood in open contradiction to the mindset of secularisation that prevailed in Western social science. Looked at from the Islamic perspective, the mainstream studies on development are legitimating devices for the imposition of Western values in the guise of a scientific discipline<sup>9</sup>. Since this time, the voices of the non-Western 'Others' have been heard, loudly and clearly. The culture-conscious elite groups of the developing world realised more than before that Western modernity is not the only historical road of development. This growing awareness engendered a wave of indigenisation of their social sciences. Theoretical indigenisation springs from a new consciousness by which native social

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<sup>6</sup> For a different ideological perspective on this paradigm shift, see J. Toye, *Dilemmas of Development : Reflections on the Counter-revolution in Development Theory and Practice*, Oxford, 1987 ; B. Nezeys, *L'Autopsie du Tiers-Mondisme*, Paris, 1988 ; P. Krugman, *Towards a Counter-revolution in Development Theory*, Washington, 1992 ; S. Brunei, *Le Sud dans la nouvelle économie mondiale*, Paris, 1995.

<sup>7</sup> C. Graham, *Safety Nets, Politics and the Poor*, Washington, 1994.

<sup>8</sup> B. Hanson, 'The Westoxication of Iran', in *International Journal of Middle East Studies*, n° 1, 1983.

<sup>9</sup> Z. Sardar, "Beyond Development : An Islamic Perspective" in *The European Journal of Development Research*, December, 1996.

scientists are driven to construct distinctive conceptual frameworks that reflect their own worldviews, respond to their own historical and cultural experiences, and which are oriented toward their own societal goals. The dynamics of indigenisation have manifestly influenced the development theorising of the last decade. Since then, the elites of the non-Western world have been engaged in the search for a new identity and difference.

Thus, in response to the ongoing process of globalisation oriented toward a uniformisation and convergence of lifestyles, a counter-movement of identity-reassertion has set in. This is based on primordial loyalties such as cultural roots, ethnicity and local community feeling. The ensuing ethnocultural assertivity has become a world-wide process in the last two decades<sup>10</sup>. However, for a clear understanding of the ethnocultural upsurge, it should be emphasised that its dynamics cannot be reduced to a form of cultural resistance against Westernisation alone. With the collapse of the last colonial empire of this century, the Soviet Union, the by then brooding ethnocultural storm broke. The same type of tension, which results from diversity, is at work in the multi-ethnic and pluri-cultural states of Asia (Sri Lanka, Pakistan, India and Bangladesh) and Europe (Spain, Italy and Belgium). It is worth noting that for the people of Timor, *Indonesianisation* may be more worrisome than Americanisation, as *Japanisation* may be for the Koreans, *Indianisation* for the Sri Lankans and *Vietnamisation* for the Cambodians<sup>11</sup>. And even in the United States the melting pot has recently proven unable to contain the outburst of ethnicity and multiculturalism. In ex-Yugoslavia, Somalia and Rwanda, the ensuing ethnic strife has led to genocide.

#### 4. The development of development studies

Development theorising has always been influenced by the drift of events. Moreover, it is always coloured and put into perspective by the ideological spectrum and theoretical orientations of the time. Amongst the most important markers we can mention the following: unexpected changes in the geopolitical context; a new focus in the strategy deployed by the major actors on the world scene; paradigm shifts in the mother disciplines (economics, sociology and political science); and last but not least, a breakthrough of a novel historical awareness. The canons of the different schools of thought were successively redefined, either to suit the changing needs of world governance or in response to the critiques of opposing views. The agendas for thematisation originated not only in academic institutions but also, and increasingly, in political cabinets, in national and international agencies, in round tables of executives for global management, in Church organisations and in other non-governmental organisations. In some instances a new topic was added to the study agenda, at times in response to a resounding slogan launched by a muscular revolutionary movement. Moreover, apart from the mainstream agenda, a

<sup>10</sup> Rudolf Stavenhagen was one of the first scholars to introduce ethnicity into development discourse. See his text 'Ethnodevelopment : A Neglected Dimension in Development Thinking', in R. Apthorpe and A. Krahl (eds), *Development Studies : Critique and Renewal*, London, 1986.

<sup>11</sup> A. Appadurai, 'Disjuncture and Difference in the Global Cultural Economy', in M. Featherstone (ed.), *Global Culture : Nationalism, Globalisation and Modernity*, London, 1990.

number of scholars independently followed their own way, a way undisturbed by the distortive effect of ideologies and short-term fashions. However, the practical significance of these independents, or their impact on policy-making, has been limited as in many cases they were marginalised by the conventional wisdom of the mainstreamers. In the critical mood of the 1980s, a number of analysts carried out a methodological evaluation of the different schools of thought and emphasised the circumstance-specific nature and the problem-centred focus of development studies<sup>12</sup>. Viewed from this angle, the area of study has been a follower rather than a leader.

- a. The early postwar fashion in development thinking and practice was characterised by an outspoken industry-centrism and urban bias. Under the shock of the Cuban revolution and Mao Zedong's thesis that well-organised peasant movements are able to ignite a revolution, a shift of paradigm occurred. In its wake ; the basic needs approach and policies more attentive to land reform and rural development followed. The spectacular oil-shocks organised by OPEC induced the Group of 77 to launch a Third World initiative with the motto a 'New International Economic Order'. By the middle of the 1960s, the 'New Left' had espoused the cause of the liberation movements in the Third World and had spawned an abundance of marxist literature. This was more reactive than innovative and it had almost no practical effect. One of the most influential canon shifts consisted in the political questioning of interventionist macro-economics, in favour of ideological support for the market mechanism on a world scale. Whereas the high tide of the nationalist models of development prevalent during the 1960s had been spinning cloth for the dependency and Marxian schools, both of which stood for delinking and self-reliance, the free market system of today works as a powerful force of integration on a global scale. Not only the former Soviet Union, but also China, are in a process of 'relinking'.

The collapse of Comecon and the revelation of the actual weaknesses of centralised planning and its ideology have discredited the socialist strategies of development. Liberalisation has unleashed tremendous forces in markets all over the world, more specifically in East Asia. Faith in the grand transformative visions and in government directed development has waned. The concern of policy makers and theoreticians has shifted to ways and means to improve the effectiveness of governments and of their political institutions.

The neoliberal resurgence of the 1980s brought the debate on the role of the state back to the fore. After more than a quarter century of active state intervention and of planning, neoliberalism rediscovered the ideas formulated in the late eighteenth century, of a liberal civil society as an antonomous reality that has its own laws and mechanisms of disturbance. But informed by the mood of the time it also introduced

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<sup>12</sup> P. Preston, *New Trends in Development Theory*, London, 1985 ; J. Harrod, 'Development Studies : From Change to Stabilisation', in R. Apthorpe and A. Krahl (eds), *Development Studies : Critique and Renewal*, London, 1986 ; J. Manor, *Rethinking Third World Politics*, London, 1991 ; J. Fontaine, *Mécanismes et Politiques de Développement*, Paris, 1994.

some ideological novelties. Different trends of thought and practice contributed : the breakthrough of the Chicago and Public Choice schools, the triumph of the *Ordo-liberalen* in Germany and the rise of the New Right in several Western democracies. By different ways and means these strands of neoliberalism seek a form of politics “beyond the state” by the introduction of techniques that can produce, for civil society and for the economy, a greater degree of *autonomisation, responsabilisation and empowerment* ; more particularly for people and agencies distant from the centre. They advocate ways and means to achieve competitive, optimising market relations and behaviour that will lead not only to less governmental action, but also to a more rationalised form of government itself. In this view the market can only function well under certain political, legal and institutional conditions that must be constructed by responsible government. Some Chicago economic liberals went so far as to advocate an extension of economic rationality to all the institutions of society and to human behaviour in general. The neoliberal U-turn of the centre came as a shock to the periphery. The Bretton Woods institutions, World Bank and IMF, picked the message and started their famous programs of structural adjustment and of good governance.

Here the thematisation shifted to the socio-political prerequisites for sustained development, to wit : political liberalisation, empowerment of the people, greater accountability of government by means of good governance<sup>13</sup>. With the emphasis on administrative probity and efficiency ; on effective legal, judicial and regulatory mechanisms, especially property rights and contracts ; with the recommendation for informational openness and transparency including a free press, the Bank entered political waters. This betokens a new turn in perspective and a considerable broadening of development ideology. *Here the emphasis is not on less but on better or on more efficient government.* With the insistence on reinvigoration of local government and the fostering of community participation, or in other words on the importance given to civil society and its NGOs, the reports open a novel agenda with populist overtones. One of the new goals of development, as the World Bank now sees it, is ‘to empower ordinary people to take charge of their lives, to make communities more responsible for their development and to make governments listen to their people’. The fostering of a more pluralistic institutional structure – including NGOs – is seen to be a means toward the above mentioned ends. With the recommendation of accountability, legitimacy, transparency, participation and empowerment of the people, the staff of the World Bank opened a new horizon.

However, the Bank’s concept of good governance has been criticised as an epistemic transplant from the West on the political cultures of the developing nations.

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<sup>13</sup> World bank, *Sub-Saharan Africa : from Crisis to Sustainable Growth*, Washington, 1989 ; id. *Governance and Development*, Washington, 1992. The Bank’s new interest in the political of development showed again in its recent World Development report on *The State in a Changing World*, Washington, 1997.

According to these critics the Bank's approach is in fact a revival of the modernisation (Westernisation) theory of the early postwar period. Indeed, with its emphasis on the techniques of disciplining, monitoring and watching, the Bank's new procedures reach much deeper into the socio-political functioning of the assisted countries and ambitions to mould them more than before. The canon of good governance is part of the neocolonial resurgence in the wake of globalisation<sup>14</sup>.

The miracles of East Asia gave rise to a new wave of thematisation on the respective merits of the free play of the markets versus state intervention. In the course of these intellectual controversies over the most promising policy, the political scientists came up with a new conceptual construct, namely 'the developmental state'. But the Asian crisis of 1997 initiated a new theme, namely *crony capitalism* or the mismatch between the state bureaucracy and the private sector in Asia<sup>15</sup>. In Sub-Saharan Africa the economic decline, more particularly since the 1980s, elicited a flood of studies on the negative role of the state. In these analyses the African postcolonial state was bestowed with different 'disquality' labels: predatory state, prebendal state, patrimonial state, clientilistic clique state, etc. In the early 1990s the impulse of *Afrostroïka* initiated new themes like democratisation, good governance and civil society. The thematisation on 'good governance' and the newly formulated canon of market democracy are markers of the post-Cold-War trend. This new agenda has been eagerly espoused by the Western donors of aid, by multilateral creditors, more particularly the World Bank and by the NGOs<sup>16</sup>.

Looking back over the last fifty years of development studies, we can see that successively new dimensions were added to the narrow starting blocks of the early models, to wit, the religious, ethical and cultural dimensions<sup>17</sup>. With a growing awareness of ecological problems, the notion of 'sustainable' development adds a new dimension as well. Thus the subject matter, as well as the structuring of perception that inspires development studies, are themselves in permanent development.

- b. Initially, thematisation was restricted to Third World-oriented development theories. The early postwar period had created a particular historical juncture (geopolitical bipolarity, ideological conflict, and the disintegrating impact of World War II on the colonial system) which induced the constitution of an autonomous field of development studies. A group of academic theorists and technical experts of various

<sup>14</sup> D. Williams, "Governance and the Discipline of Development", in *The European Journal of Development*, n° 2, 1996.

<sup>15</sup> R. Mcleod & R. Garnaut, *East Asia in Crisis*, London, 1998 ; J.L. Domenach, *L'Asie en Danger*, Paris, 1998.

<sup>16</sup> A. Leftwich, *Democracy and Development : Theory and Practice*, Cambridge, 1996.

<sup>17</sup> T. Verhelst, *No Life without Roots : Culture and Development*, London, 1990 ; J. Friedman, *Cultural Identity and Global Process*, London, 1994 ; G. Rist (ed.), *La Culture Otage du Développement*, Paris, 1994 ; J. Nederveen Pieterse, 'The Cultural Turn in Development : Questions of Power', in *The European Journal of Development Research*, n° 1, 1995 ; M. Wieviorka, *Une société fragmentée ?* Paris, 1996 ; V. Tucker, 'A Cultural Perspective on Development', in *The European Journal in Development Research*, n° 2, 1996.



national and international agencies were convinced that a concerted effort of enquiry and policy formulation, embodied in a specialised discipline, was indispensable in light of the urgency of the development problems. Now that there is no longer a 'Second World', and the neoliberal paradigm has replaced the interventionist mood of the early postwar period, the need for an autonomous discipline is questioned. From the standpoint of methodology, as well as of theoretical orientation, development studies have tended to be reintegrated into the mother disciplines, namely, economics and sociology. With the revival of neoclassical economics and of political conservatism, and the consequent reassertion of their universalist claims, the thematisation on 'the special case' has lost its appeal.

As a result of the geopolitical changes (the end of bipolarity, the global spread of the market economy and the growing diversity between the Third World countries), development theorising risks losing its original anchorage in the domain of developing countries. Indeed, some of today's development theorists are attempting to embrace the scale of the globe. Novel problematisations, such as the problems of transition in the former Communist bloc, the migration of economic opportunity to the growth poles of Asia and, last but not least, the growth pains of the Western core countries, enrich the subject matter with new avenues of enquiry that tend toward a promising study of world society or of globalisation. The now fashionable term *globalisation* stands for the worldwide networking of industrial production firms, of financial intermediaries and markets, and last but not in the least of the Western media and culture industries. Its driving force is the neoliberal ideology that since the 1980s seems to have conquered the world. Neoliberalism stands for cheap or minimal government and government geared to securing the conditions for optimum economic performance. In this entrepreneurial strategy, the market is the central institution. Today, the new rhetoric of *globalisation* poses as a substitute for development. However, in my view development studies, or the analysis of special and regional cases, will continue to be valuable. In order to meet the challenge, this approach ought to be infused with a new spirit. The new accents in institutional economics and the studies of comparative economic systems may be helpful companions on the road to the renewal of development theorising.

- c. With the exception of a few historians, the development theorists of the early period were not interested in the stories of the two non-Western latecomers, Russia and Japan<sup>18</sup>. From the second half of the 1980s, when the failure of the Soviet Union and of Central Europe became manifest, the state-planned, socialist development strategy could hardly be of interest, except as a negative model. Conversely, the development of Japan offers a more interesting story. Due to the industrial success of Japan, the

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<sup>18</sup> The three most noteworthy economic historians with an interest in development were natives from Eastern Europe, A. Gerschenkron, S. Kuznets and K. Polanyi. Only Gerschenkron drew interesting conclusions from the development story of his native country. See A. Gerschenkron, *Economic Backwardness in Historical Perspective*, Cambridge, 1962.

Western managers and scholars realised that not only the developing countries, but also the core economies of the West, can learn from the Japanese case. In the 1980s the 'learn from Japan' idea became a fashion. Before the financial crisis that struck the region, the strategy of the so-called dragons or tigers of East Asia, was profiled as the most promising recipe of development.

Economic development, and more particularly industrial development, is in essence a process of flexible restructuring and upgrading of activities toward higher added value. The general model of transformation consists of a sectoral restructuring : from the primary sector (primarily agriculture) toward manufacturing, and in a later phase toward a service economy. Once the latecomers enter the industrialisation phase, the optimal strategy consists in a permanent restructuring of the industrial sector itself : from low-productivity, labour-intensive, low-technology and light industries, toward high-productivity, high-technology and knowledge-based industries. In short, successful industrial restructuring consists of flexible upgrading : from low-value-added to high-value added activities. Japan was the first latecomer who most successfully did the job<sup>19</sup>. The restructuring and upgrading can be accelerated by adequate policy guidelines or, conversely, may go astray due to faulty ones. Policy makers necessarily have to make choices between the following options : state versus market, inward- versus outward-oriented strategies, and investment-led versus export-led growth. The early postwar climate of opinion favoured state-propelled, inward-oriented, and investment-led strategies. The neoliberal creed, emerging in the early 1980s, favours the market mechanism coupled with outward-oriented and export-led growth. From the mid-1980s, a significant migration of economic accumulation has taken place. The economic and cultural successes of East Asia have challenged the West's monopoly in modernity. A non-Western modernity, namely, Asiatic modernity, imposed itself as a promising alternative. The recent Asian crisis impelled by financial speculation tarnished the model, but the fundamentals are still there. We are living at a new historical juncture : the ideological bipolarity has vanished and new 'cultural divides' are emerging.

- d. Now that we have witnessed the geopolitical changes and ideological transition of the 1990s, we are in a better position to evaluate the development thinking and practice of the last half century. In the 1950s, the modernisation school enthusiastically subscribed to Weber's thesis on the uniqueness of Western rationality. As such, and with Weber, they minimised the import of the social, cultural and economic dynamics in the non-Western civilisations. The modernisers claimed that Western rationality was a universal model. This affirmation marginalised all other cultures and identities as non-rational, particularistic and backward 'others'. In order to secure the power relations hidden within the modernist discourse, modernisation theorists invested a great deal of energy in encouraging the postcolonial and per definition underdeveloped

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<sup>19</sup> T. Morris-Suzuki, *A History of Japanese Economic Thought*, London, 1989.

'others' to internalise these projections. By the end of the seventies, though, the geopolitical situation and the value-judgements concerning that situation signalled a change. In the earlier models, modernisation was conceived of as a deliberate displacement of an indigenous system by the import of a Western one. In some cases Westernisation was implemented at great social and cultural costs. By the end of the 1970s the structures of perception started to change. The West's loss of prestige due to both the Vietnam debacle, the 'showdown' in Iran and the spectacular breakthrough of Japan, was followed by an assertive drive toward new thematisations. Development came to be perceived from a broader perspective, and scholars from non-Western cultures joined in the chorus. Since then a growing number of social scientists have directed greater attention to both the cultural, ethical and religious values affecting development, and to methodological issues<sup>20</sup>.

The geopolitical upheavals of the 1990s wrought a change in the distribution of power in the world and accentuated the already ongoing structural shifts of impact from governments to markets which gave an impetus to globalisation. The rise of East Asia and the growing significance of its economies in world markets, in the international organisations and world politics has diminished the relative economic importance of the transatlantic links. This spells the demise of the familiar Atlantic dominance. In the future the Atlantic-centred worldview will be challenged by a new geopolitical set-up. The giants China and India are in a dynamic process of economic emergence. And in Latin America a colossus like Brazil is growing more economic muscle.

We live in the midst of an epochal tide. In today's world, the objectives of development and the means to achieve them are increasingly redefined and co-determined by actors and groups from cultures outside the Western world. The revival of the Islamic culture, the grassroots movement of the Christian communities in Latin America, the resurgence of the cultural conflict between anti-Western Slavophiles (*narodniki*) and westernisers (*zapadniki*) in Russia, the messianic movements in Africa, as well as the flamboyant theses on *Asiatic modernity* loudly proclaimed in Japan, Singapore and Malaysia, are all clear indications of the growing disenchantment with the secularising and materialistic ideologies of development. A renewed sense of basic loyalties is nurturing an intensification of cultural and ethnic demands. The cosmopolitan imagery of late-modern globalisation and secularisation appears to be incapable of satisfying such needs though, and as such new developments are in the offing<sup>21</sup>.

## 5. Postmodern identity politics

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<sup>20</sup> In his survey of postwar development studies Ingham states that the thematisations of the first generation focused on "material" problems and mechanisms, while the newer ones are more "people-centered"; see B. Ingham, "The meaning of Development : Interactions between *New* and *Old* Ideas", *World Development*, 11, 1993.

<sup>21</sup> J. Delcourt, "Vers une culture mondialisée ?", *Sous la Loupe*, n° 12, 1996 ; A.J. Arnaud, *Entre Modernité et Mondialisation*, Paris, 1998.

Two decades ago when the term 'postmodernism' emerged, it was initially associated with developments in the arts. Gradually the term spread to other cultural spheres, with spin-offs in ideology, philosophy, sociology, economics and political science. Modernism had postulated that science and reason could solve all our problems. It suggested that reason, scientific knowledge and technology were able to insure harmony amongst the diversity of mankind. According to the paradigm of modernity, the social, political and economic spheres of life could be almost completely rationalised and managed. As a consequence, our lives were being engineered, planned, steered and administered by 'globalising systems'. Postmodernism is a cultural rejection of this paradigm.

The postmodernist mindset is propagated by an eclectic group of philosophers and essayists. The most influential authors are Umberto Eco, David Harvey, Thomas Kuhn, Larry Laudan, Jean-François Lyotard, Edgar Morin, Richard Rorty, Stephen Toulmin and Wolfgang Iser<sup>22</sup>. Lyotard became one of the best known proponents with his stance that late modernity engenders a generalised distrust in the grand narratives of reason and progress ; but this is only the negative side of it. Keywords in the postmodern agenda are identity, difference, basic loyalties and multiplicity of perspectives. Postmodernism conveys a deep aversion to any global project or cosmopolitan claim on the sole basis of technology, science and reason. Critics of postmodernism paint them as cultural relativists. Basically, though, the postmodernists are in search of new sources and bearers of meaning. The original movement was amplified by new adepts from the Left. These converts voiced a radical critique, or *deconstruction* as they call it, of the celebrated grand narratives of the Enlightenment, including marxism. As opposed to these grand explanatory theories, the 'postmodern' social scientists explore and explain the dynamics of development in terms of history, institutions and culture.

In the pluri-cultural nation states of the world, the tide of intense nation-building has past its peak. It is increasingly challenged by ethno-cultural assertivity. In countries where the marxist ideology prevailed, the theory of class-conflict succumbed to the onslaught of cultural politics. The rediscovered impact of the cultural and religious spheres stands in sharp contradiction to the convergence thesis. The convergers and their globalisation rhetoric proclaim the complete assimilation of the sphere of values to the requirements of the market. The postmodern stance, on the other hand, elicited a deconstruction of this Western version of economic determinism, as well as of the class-ideology of marxism. Development thinking is now undergoing a renewal that is leading to enlarged horizons. The area of study is invited to respond to the paradoxical coexistence of two contradictory trends, those of globalisation and heterogeneity. Postmodernism recognises and respects the authenticity and particularity represented by the non-Western 'others'. As such, the

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<sup>22</sup> Here follows a short selection from a voluminous literature : J. Lyotard, *La condition postmoderne*, Paris, 1979 ; G. Vattimo, *La fine della modernità*, Milan, 1985 ; G. Leng and K. Shell, *Crisis of Modernity*, Boulder, 1986 ; D. Harvey, *The Condition of Postmodernity*, Oxford, 1989 ; E. Morin, *Introduction à la pensée complexe*, Paris, 1990 ; S. Toulmin, *Cosmopolis : The Hidden Agenda of Modernity*, New York, 1990. A comprehensive reader with an enlightening introduction is edited by W. Iser, *Wege aus der Moderne*, Weinheim, 1987.

proposed cultural decolonisation should have an impact on the methodology of development studies.

In order to recognise that we are drifting into a new era, one need not become a disciple of the postmodernist springtime. The peoples of the earth were not waiting for the inspiration of postmodernism to get on the move. In all times, human beings are value-bestowing agents of history. The assertivity of religions and cultures is driven by their own strength and by their inherent dialectics of flourishing. In a great part of the developing world their value appeal has grown stronger.

In a great number of developing countries churches and religious movements entered the field of development work by means of an impressive network of NGOs. This NGO-isation brings them to a new associational style characteristic of grass-roots movements. In the Christian as well as in the lands of Islam, the movements inspired by religion are fighting against the baleful effects of modernisation and its promise of human emancipation and liberation that did not live up to this promise. According to G. Kepel, who studied the Islamic resurgence this betokens a revenge of God<sup>23</sup>. The dynamism of culture and religion unexpectedly broke open 'the iron cage' of modernity and activated indigenisation. Historical forces that had been marginalised or kept within bounds by the flattening mill of modernity are coming to the fore<sup>24</sup>.

In the 1940s and 1950s the geopolitical constellation and the ambition of the superpowers to undermine the European colonial system, favoured the nascent political nationalism of the local elites in the colonies. In the geocultural situation of the 1990s a different form of nationalism, namely *cultural nationalism* manifests itself as a new force against Westernisation<sup>25</sup>. In the lands of Islam and in the transition countries where the communist ideology lost its spell, the revival of religion and ethnic assertivity are powerful allies of cultural nationalism.

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<sup>23</sup> G. Kepel, *La revanche de Dieu*, Paris, 1991.

<sup>24</sup> For more details, see L. Baeck *Postwar Development : Theories and Practice*, Unesco - ISSC, Paris, 1993 ; V. Tucker, "Cultural Perspectives on Development" in *The European Journal of Development Research*, December, 1996 ; M. Castells, *The Power of Identity*, Oxford, 1997 ; M. Roque, *Identidade y Conflicto de Valores*, Barcelona, 1997.

<sup>25</sup> K. Yoshino, *Cultural Nationalism*, London, 1992 ; S. Rubert de Ventós, *Nacionalismos : el laberinto de la identidad*. Madrid, 1994.

## **6. There is no end to history**

In the 1990s the ideological triumph of the Western market democracies became a dominant theme. In the new geopolitical context the abuse of power and economic mismanagement of the postcolonial states in Africa came to be seen in a new light. The Western constituencies who are influential in the aid-business (American and European civil society and its NGOs) attributed the generalised decline to the misgovernment of these authoritarian regimes. To turn the tide of the prebendal clientilism and the predatory practices of their rulers, they called for democratisation and economic reform. This change of the political paradigm caused a flood of studies on the role of the state and on political pluralism as a prerequisite of sustained growth.

Against the black picture of the African quagmire stood the East Asian tigers. These were hailed as the most successful champions in development. The dynamic restructuring and upgrading of their industries toward higher added-value activities was proclaimed to be a model for the rest of the developing world. But in the summer of 1997 it seemed that the Asian tigers had been doped by speculative bulbs. And the swing of their dynamism was interrupted. The Asian shocks spread by contagion to two other colossi : in the summer of 1998 to Russia and in January 1999 to Brazil. The accelerated sequence of financial crises initiated a new cycle of thematisation on the volatility of the globalised but unregulated financial markets and on the more or less inept management of these crises by the IMF. The development strategy promoted by the Bretton Woods institutions, also known under the label of *Washington Consensus*, was questioned. The financial crises of the Asian tigers, of the transition economies (Russia in particular) and of Latin America initiated a new view on the impact of international capital flows and their volatility. An influential stream of expert opinion now calls for rules leading to more prudential banking practices and for reform of the international financial architecture and of the IMF. Since the dialectics of development produces a dynamics in theorising that never stops, there is no end to history, nor to intellectual history. Both enjoy eternal youth.

## CHAPTER II : THE FIRST GENERATION OF MODEL BUILDERS

### 1. Vocabulary and meaning

The history of ideas informs us that each period has its dominant thematisations and vocabulary. According to the mood of the time, certain words happen to be given a seal of collective approval, whereby they become 'code terms'. These key terms select and underline what are experienced as unquestionable realities and objectives. In the postwar period this happened to the term 'development', as at that time development had become an imperative for our age. New historical power constellations and changes in geopolitical relationships, especially when they are accompanied by a novel sense of consciousness, elicit a new vocabulary<sup>26</sup>. Until the Renaissance, the most widely held view was that human history illustrated a repetitious cycle of growth, maturity, and decline. The post-Renaissance scholars, and even more so the philosophers of the Enlightenment, postulated the idea of a continuous progress. This is a process of accumulation and growth in the non-material domain of ideas and scientific discoveries, with a concomitant rise of welfare in the material sphere. The idea of progress moved onto the centre stage of European thought and gradually permeated the Western collective consciousness. Progress was perceived as, and declared to be, intrinsically felicitous. In the nineteenth century, Darwinism introduced the concept of evolution. This new term conveyed a novel meaning, namely, the idea that the new forms (biological species as well as societies) are accompanied and influenced by a struggle between internal and external forces. In the ensuing contest the fittest survive and dominate the losers, who become dependents. Social Darwinism offered the by then industrially advanced and politically expansive West an open invitation to colonisation.

The activist mood of the early postwar period had little patience for historical processes of such slow maturation as evolution, and so launched a new term, namely, development. This term conveyed the idea of an historical rupture, to be followed by a deliberate and steered process of renewal. In the respective views of the Soviet Union and the United States, development was understood to be either an avowed effort to replicate the models of the West (*Westernisation*) or as enforced *Sovietisation*. The term development came *en vogue* in the wake of the decolonisation process that marked the forties and fifties. Taken in the literal sense, *de-velopment* means *to be taken or coming out of the envelop*. In the early postwar period, the historical and cultural traditions of the so-called 'backward' countries were perceived to be the envelop. And just these historico-cultural envelops were thought to be handicaps for the new nations on their road to modernisation and progress. In some native languages of Africa, for example, the term development means the same as, or is an etymological equivalent of, *enlightenment*. In Africa, then, the root of the term development is also associated with 'a breaking away from historical tradition'.

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<sup>26</sup> E. Agazzi, 'Philosophical Anthropology and the Objectives of Development', in *Goals of Development*, Paris, 1988.

In an interesting study, the British sociologist J. Peel offers an exegesis of the Yoruba concept of development, or of the semantics of *olaju* as it was linguistically expressed in this cultural area<sup>27</sup>. *Olaju* literally meant 'eye-opening', which creates a condition of greater efficiency and prosperity. Basically, the term intends what the West refers to as 'enlightenment', that is, the insight required to achieve power over the material and social environments. Amongst the Yoruba, this enlightenment was jealously monopolised by the elders of the society and by the powerful. With the arrival of the outer religions, Islam and especially Christianity, enlightenment underwent a transformation. It was profiled as a treasure to be shared. Under the influence of the missionary religions and the education they provided, enlightenment changed its power basis from the traditional elders to those with a modern education. The younger generations had an option between entering the colonial administration or embarking on trade activities. The personal independence and financial success of traders were regarded as the happy results of enlightenment supported by education.

When the nationalist movements of the educated urban elites gained ascendancy and ultimately took over power, it became clear that an advanced level of education was the most essential element of enlightenment. Priority was given to general education up to the university level, since the holders of skills resulting from professional and technical schooling did less well in the competition for greater shares of the total social product. A person with a general education, followed by a white collar occupation, climbed higher in the social hierarchy. The new opportunities offered to the educated urban elite, and its spectacular rise as a result of decolonisation, anchored a skewed view of *olaju* in the social consciousness of the Yoruba people. From the outset enlightenment had a promethean connotation, and as such trade activities, rural development, handicraft work, etc. were ranked lower than the administrative and political achievements of the conquering urban bourgeoisie. As a consequence of this skewed perception, the social demand for advanced general education went into overdrive. The ensuing hypertrophy in the educational effort of the country evolved into the well-known 'diploma inflation'. The Yoruba case study thus provides an insight into the dialectical link between the anchorage of the *olaju* concept in the collective mind and the strategy options of the policy makers.

The tendency of the pioneers in economic theory to think in terms of steered economic growth was strengthened by the fact that interventionism had become the focus of theoretical interest in the West. Since most of the backward areas were agrarian economies, they had an underdeveloped resource base with only a few infant industries. Given this, it was soon acknowledged that the application of the then fashionable neo-Keynesian growth models would be insufficient to meet the objectives of development. Consequently, the spectrum of issues referred to in the theoretical discourses broadened. Besides the determinants of economic growth and its required capital accumulation, other matters, such as the activation of industrialisation, the choice of

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<sup>27</sup> J. Peel, 'Olaju : A Yoruba Concept of Development', in *The Journal of Development Studies*, n° 2, 1978.



techniques in planning the industrial base, the transformation of the occupational structure, the mobilisation of the under-employed manpower and the role of international trade, loomed large in the early development debate.

The liberal international order established by the United States cherished the idea of the incorporation of the new states into the Western industrial orbit, which was stimulated by an open door policy. Early development theory and policy, though, chose to ride on the crest of the rising nationalism in the developing countries. The dismal economic performance of the Western countries and the related depression in the economies of the commodity producing countries in the 1930s, continued to influence the climate of opinion as late as the 1950s. Many economists were convinced that developing countries might have a better chance with a strategy of more balanced national growth. This would limit their dependence on the cyclical fluctuation of trade with the developed countries. More balanced growth would also create an opportunity to establish a national industry, and provide the modern lever to catch up with the advanced countries. The then prevailing international trade pessimism, nurtured by some influential economists and policy makers, recommended industrialisation as the favourite vehicle of growth. In their view, not only the vicious circle of backwardness and poverty had to be broken. To make this program solid, employment creation by public investment planning, oriented toward rapid industrialisation, was also regarded as a priority. The early developers envisaged a complete overhaul of the backward nations. As a first step in this process they provided blueprints for economic growth.

The first generation of development theorists started with the zeal of a new sect. In a flood of publications, modernisation theory and its hard core development economics profiled itself as a new ideology of salvation. Looking at the economic backwardness of the new nations, the developers proclaimed that urgent policy measures were necessary. And the men in power were persuaded that they could succeed in the time of one generation<sup>28</sup>. For development economics, 1945-65 was a high tide. An impressive list of influential authors turned to the subject. Among the first to construct general models of growth were P. Rosenstein-Rodan, R. Nurkse, H. Singer, C. Clark, S. Kuznets, A. Lewis, A. Hirschman, R. Prebisch, F. Perroux and many others<sup>29</sup>. Their models were rooted in different paradigmatic traditions and ideological preferences. These ranged from the classical school with a preference for the market mechanism, to the opposite school which defended state planning, and the middle roaders who practised Keynesian inspired growth models.

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<sup>28</sup> G. Rist, *Le développement : histoire d'une croyance occidentale*, Paris, 1996.

<sup>29</sup> G. Meier & D. Seers, *Pioneers in Development*, London, 1984.

## 2. The founding father of development economics

Rosenstein-Rodan, an economist originally from Central Europe, may be considered to be the founding father of the first generation of development economics. In 1943 he published his path-breaking study on the new theme<sup>30</sup>. As a complement to the dictum of the scholastic schoolmen of the Middle Ages, *Natura non facit saltum*, Rosenstein-Rodan founded development theory on the principle *Voluntas facit saltum*. He asserted that in human affairs a deliberate effort of will can produce a jump forward. Inspired by this philosophy he rejected the piecemeal and gradual approach of the neoclassical school. On the premise that the underdeveloped areas of Eastern Europe were locked in an arrested state of industrial growth, the breakthrough toward sustained industrialisation required an organised attack on a broad front.

His first concern was the excess agrarian population of the region, which resulted in a considerable degree of 'disguised' unemployment of its manpower. To take advantage of the economies of scale, he advised a planned program of industrialisation based on the simultaneous creation of several complementary industries. For the most backward regions, Rosenstein-Rodan initiated the idea of the *big push*. On this view, a major block of government sponsored social overhead and infrastructure must be built as a catalyst for the consumer goods factories, as private market initiatives would not be able to start these public utilities in time. To be effective, these infrastructural and public utilities, mainly transport facilities and energy installations, require a minimum quantum. They could serve a number of factories as they would cost far too much for only one or a small group of firms.

Coherent industrialisation programs require a big push, as in practice, the take-off in a program of comprehensive and complementary investment presents more indivisibilities than the smooth production functions of equilibrium theory postulate. In order to succeed, the minimum threshold of capital investment had to be of significant enough size. As such, foreign aid may be a useful complement to national savings.

## 3. Development through balanced economic growth

R. Nurkse is the second prominent author of early development economics. He favours balanced growth<sup>31</sup>. This choice rests on the technical requirement for a *nationalist* development strategy. In order to meet the rise in demand in a closed economy, an equivalent expansion in productive capacity is necessary. If the requirement is not met, the shortfall in national production has to be imported. In the growth process, however, the volume of demand for all goods and services does not grow at the same rate. In the course of welfare evolution demand for the basic necessities such as food, clothing, housing, etc.,

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<sup>30</sup> P. Rosenstein-Rodan, "Problems of Industrialisation of Eastern and South Eastern Europe" in *Economic Journal*, July-September, 1943.

<sup>31</sup> R. Nurkse, *Problems of Capital Formation in Underdeveloped Countries*, Oxford, 1953.

will witness a relative decrease in favour of a more intensive demand for sophisticated goods and services. With the rise in average welfare the demand for industrial products accelerates. This implies a transformation toward the faster growth of sectors and industries where the income elasticity of demand is high, and a slower rate of growth for the sectors which witness a low income elasticity of demand.

However, the dynamism of this complex transformation process cannot be left solely to the price mechanism of the market economy, particularly in underdeveloped economies. In these conditions, markets are imperfect as a consequence of basic rigidities in the production structure. In addition to this 'elasticity pessimism', Nurkse argues that market prices do not convey all the relevant information which would permit private investors to make adequate investment decisions. Markets, especially in underdeveloped economies, are saddled with monopolies or oligopolies. Their prices then are not representative of real costs. Thus, the ineffectiveness of the market mechanism has to be assisted by investment planning.

The smallness of the market for industrial goods was another argument. At the time that Nurkse wrote his treatise, a country of ten million inhabitants like Belgium generated a greater demand for industrial products than India, a country with six hundred million people. Even small countries with a high average income consume more industrial products than large, but poor countries. Due to the low average income in developing countries, demand for and supply of manufacturing products are limited. The market is so narrow that the vicious circle can only be broken if demand and supply are pushed up *over a broad range of sectors at the same time*.

In the light of the metaphor 'the requirement for balanced growth rests on the need of a balanced diet', Nurkse investigated the complex interactions between the inter-sectoral terms of trade and of price structures. One should beware of specialisation in some branches of industry, or of the over-concentration of resources in only a few sectors. This distortion would inevitably cause a deterioration in the terms of trade or in the price evolution between the products of the favoured sector and the lagging sectors. To cite an example : the neglect of agriculture would overlook the initially high income elasticity of the demand for food in the developing countries. A sluggish agricultural production then would result in a disproportionate price increase of foodstuffs. Price inflation for food would reverberate through the economy at large. Price rises in food would distort the cost-structure of the industrial and urban sectors as they would be continually subject to wage-pressure. Finally, the social and economic inequality between the rural and urban populations, and between the agricultural and industrial sectors, would be detrimental to social cohesion and to nation-building. As such, the strategy of balanced growth was also favourable to Nurkse for its social and political impact.

Allowing that the arguments in favour of balanced growth and of the big push called for inward-looking industrial strategies, they gave a firm boost to the nationalist aspirations of

the new states. The balanced growth theory gave rise to a plea for investment in the productive capacities of the 'own country' to match the domestic demand. The engine of international trade was discredited and import substitution appeared to be a sound solution. In the words of Nurkse, balanced growth is a means of getting out of the rut, a means of stepping up the rate of growth when the external forces of advance through trade expansion and foreign capital are sluggish or inoperative.

#### **4. Imbalance as a strategy**

The long delay in development in the new states rendered the quest for a deliberate and guided industrialisation strategy the leading issue in the subject. Apart from the 'big push', several other metaphors were coined by various theorists, such as 'take-off', 'great spurt' and 'minimum critical effort'. Regardless of the metaphor used, specialist opinion diverged widely as to the ways and means to achieve it.

W. Rostow's term 'take-off' became the most popular metaphor<sup>32</sup>. The subtitle of his book was 'An Anti-Communist Manifesto', and its tale had a rather optimistic ring. In the construction of the functional prerequisites for take-off, he fell back on the then conventional growth creed : a sufficient level of savings would provide the required capital inputs for investment. All would go well afterwards, provided that entrepreneurial-minded capitalists assembled the train of industries in the right order.

Rostow was wary of state guided development and preached the safe old religion of the Protestant work ethic. According to this philosophy, hard work and a sagacious sense of enterprise precede the consumption spree characteristic of the elite groups of the developing countries. While take-off requires a deliberate effort, the ideological imbalance of state enterprise should be avoided. His book advised a full swing back to *laissez-faire* economics and to reliance on the market mechanism. Rostow became an adviser in the White House during the Vietnam War. This war became a quagmire. Vietnam illustrated the abortive effects of ideological messianism in a country dedicated to nationalist self-reliance. Anti-communism was clearly not enough to be successful in foreign policy.

Economists like Hirschman and Perroux questioned the balanced growth phalanx in a less ideological way<sup>33</sup>. Like Rostow, they concentrated on the problems of development resulting from the institutional matrix. In their view, the major obstacles to growth are not primarily capital shortage, low thresholds of demand and supply, or the lack of complementarity. The real obstacle is the absence of an entrepreneurial class which dares to take the risk of unbalanced growth. Hirschman rejected the simultaneous push approach. He proclaimed that the crux of the matter consisted in the generation of an eclectic 'sequence' of separate break-throughs. As such, capitalist entrepreneurs and state

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<sup>32</sup> W. Rostow, *The Stages of Economic Growth*, New York, 1959.

<sup>33</sup> A.O. Hirschman, *The Strategy of Economic Development*, New Haven, 1958. According to F. Perroux, the historical development process produces what he calls 'growth poles'. F. Perroux, *L'économie du XXe siècle*, Paris, 1956.

planners alike should concentrate their efforts on the creation of growth poles, productively knit together by backward and forward linkages.

Development does not depend as much upon finding balanced combinations for given resources and factors of production, as on the mobilisation of resources and abilities that are 'hidden, scattered or badly utilised'. The organisation of 'creative tensions' on the basis of backward linkages is the primary method for this kind of mobilisation. Backward linkages relate manufacturing industries to their base of primary commodity production. They steer investment flows and manpower from the finished consumer goods sector back toward their input, that is, toward the semi-processed or raw materials base; and to the machine and tools industries that help to manufacture them. Forward linkages are investment flows in the other direction, toward the finished products. They are more difficult to realise and present tougher technological bottlenecks.

In contrast to the relatively balanced path followed by the advanced countries in the nineteenth century, for the latecomers to industrialisation Hirschman advises a strategy of backward linkages enforced by import substitution. In his attack on what he called the 'myth of integrated investment planning on all fronts', he finally reaches the same nationalist conclusion as the phalanx for balance : import substitution is the central goal of industrialisation. The difference between the two approaches lays in the pressure mechanism and the pacing devices used to attain this goal.

Against the weight of the historical argument which put its trust in the engine of international trade, Hirschman proclaimed that 'latecomers have to follow other paths than prime movers'. The problem with import substitution is not that it cannot achieve what it stands for. The problem is that after a while it runs out of steam insofar as it is pushed to uneconomic lengths. The frustration which evolved in the aftermath of exuberant import substitution proved Hirschman's prediction correct. Once the easy steps in the light industry sector were accomplished, import substitution broke down in the capital goods sector or in more complicated machinery manufacturing. The lack of technical know-how and excessive state interference sunk the boat.

The difficulties involved in the transition from the easy to the technologically more complex stages initiated a turn in the climate of opinion toward the import of technology operated by transnational firms. In the political fight between the nationalist line, which was supported by the populist regimes in power, and the groups which favoured incorporation into the transnational industrial complex, several Latin American nations became victims of authoritarian regimes.

## **5. Development through occupational transformation**

In an impressive series of historical and statistical studies, S. Kuznets (and others such as C. Clark and J. Fourastié) investigated the development scenarios of the nineteenth century

prime movers<sup>34</sup>. Kuznets found that their success was the result of the following transformations and their supporting forces :

- a. Relatively sustained increases in factor productivity, especially of labour productivity.
- b. Accelerating rates of structural transformation in the occupational structure of the economy as it moved from agriculture to manufacturing, followed by the expansion of the service sector. The gradual shift away from agricultural to non-agricultural activities was accompanied by significant changes in the scale or average size of the production units. Small family businesses gave way to large national and transnational corporations.
- c. In the initial phase of industrial take-off, wages were kept down. The ensuing industrial surplus-value speeded up capital accumulation by the entrepreneurial classes. The consequence was that the income gap between the social classes grew wider than before. Unequal income distribution appeared to be the price of rapid capital accumulation. As the industrialisation process matured and labour organised itself, higher wages followed and the income gap decreased.
- d. Substantial changes in the social and institutional matrices, such as the organisation of interest representation and bargaining coalitions for capital and labour. The rate of increase in productivity by labour accounted for approximately 50 to 75 per cent in income growth.
- e. The propensity of the prime movers to reach out to the rest of the world for markets and raw materials. Given their dominant economic position, the international division of labour between the forerunners and latecomers played in favour of the former.
- f. The limited spread of this model to only twelve countries in the world.

In the historical investigations of Kuznets, the transition from a land-based, rural agrarian society to a highly skilled, urban-oriented industrial and service economy, moves centre stage as a lever of development. The success in the transformation of the prime movers' economy, however, rested on the fact that the preceding rise in agricultural productivity created surplus capital and liberated labour as a support for the industrial take-off. A second point to be noted is the fact that this structural transformation did not evolve without social and political conflicts between agrarian landlords and captains of industry, or between capital and labour. Indeed, in the United States a civil war broke out as a result of the opposing development strategies of the agrarian aristocracy of the South and the industrial establishment of the North.

Kuznets' publications impressed policy makers and theorists. They helped create a climate of opinion in which industrialisation, supported by a transfer of labour from agricultural to

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<sup>34</sup> S. Kuznets, *Modern Economic Growth*, New Haven, 1966.

manufacturing activities, became the chapter and verse of their blueprints.

## **6. Development with an unlimited supply of labour**

A. Lewis profiled himself as a leading voice in this chorus <sup>35</sup>. His model was largely inspired by the classical synthesis on development, formulated in the middle of the nineteenth century by John Stuart Mill. In the primeval years of development economics, the Lewis thesis on the unlimited supply of labour almost evolved into a canon. Lewis' growth model is based on the theory of a dualism between the traditional and the modern economic sectors. In contrast with Boeke's static conception of dualism, Lewis postulates a dynamic interaction between the two sectors:

- a. The traditional, rural subsistence sector, characterised by very low or even zero productivity of its surplus labour in low-cost manpower, can be tapped.
- b. The dynamism of the urban industrial sector, with a higher productivity of labour, is able to absorb manpower from the rural sector. The surplus value thus created acts as an inducement for further investment.

Aside from the differences in employment opportunity and labour productivity, the two sectors are also marked off by different sets of organisational behaviour. The traditional sector functions according to rules of shared distribution, whereas the urban capitalist sector functions according to competitive rules and on the principle of profit maximisation. Lewis focuses his attention on the process of labour transfer from agrarian activities to urban industrial employment. In his analytical construct, however, Lewis departs from historical experience. In his theoretical model, the rural sector is able to deliver an unlimited supply of labour at a low cost, and the absorption capacity for employment in the urban capitalist sector apparently poses no problem. This was not the case in nineteenth century Europe of course. While Marx observed the proletarianisation of the urban masses, novelists like Charles Dickens and others gave vivid descriptions of the urban unemployment and squalor.

Capital accumulation in the modern sector determines the speed of labour absorption. In Lewis' model, capital accumulation and the capacity of the modern sector to invest proceed on the creation of profits based on the appropriation of surplus value. Since the absorbed rural labour works at low wages, they create considerable surplus value. Capitalists reinvest all their profits and the level of wages is assumed to stay constantly low. The pressure of the reserve army of rural labour maintains the urban wages at a margin just slightly above the productivity value of the subsistence level of labour in the rural sector. To induce labourers to migrate to the urban centres, Lewis assumes that a margin of 30 percent will attract a sufficient volume of rural manpower.

At the beginning of the transfer process, the supply curve of labour will slope gently

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<sup>35</sup> A. Lewis, *The Theory of Economic Growth*, London, 1955.

upwards ; with the acceleration of the rural exodus, the supply curve will eventually slope steeply upwards. The crucial variable in the accumulation of urban industrial capital is the appropriation of surplus labour value. The success of this capitalist appropriation of surplus value rests on the assumption of real wage constancy in the urban sector. In order to succeed, this has to continue for a considerable period of time. Once the elastic supply curve of labour ends and real urban wages begin to increase markedly, the rules of the functional distribution between the capitalist's profit and the wage fund of labourers begins to change. At this turning point a second phase begins wherein capital accumulation derives not only from surplus value appropriation, but from the savings of wage earners and the profits of entrepreneurs as well.

In most new countries, the evolution of the real situation departed markedly from Lewis' theoretical construct. The premise concerning an unlimited supply of rural labour appears to be largely correct. Indeed, research findings illustrate the acceleration of the rural exodus phenomenon. However, the assumption concerning the unproblematic absorption of labour in the urban industrial centres, and the capital accumulation thesis based on surplus value reinvestment, did not materialise in the way Lewis had postulated. On the contrary, rural exodus and population growth engulfed the urban centres with masses of 'unabsorbed' surplus labour. This resulted in large urban unemployment.

Even in the situation of labour redundancy, urban wages increased for those employed. Labour aristocracies were formed and created another kind of dualism. This consisted of urban wage earners with a considerably higher income on the one side, and of people in the so-called 'informal' sector, characterised by lower income and disguised unemployment, on the other side. Another miscalculation was that the industrialisation of the new countries did not proceed on labour absorbing devices to the degree Lewis had assumed. A lot of new industries also incorporated capital intensive and labour saving technologies. In such cases, a smaller volume of manpower is absorbed. However, this hard core of the labour class pressed for, and in several cases obtained, higher wages.

In many of the new countries the assumptions of the Lewis model, as well as those of his many disciples, like Fei and Ranis, who formalised the model to a still higher degree of abstraction, did not materialise. Labour aristocracies imitated the urban elites engaged in government administrations. They competed for the spoils of modernisation and industrialisation under the form of higher wages. In many new nations the populist regimes and the national bourgeoisie could not resist this mounting pressure for distribution. In the course of time more authoritarian regimes, largely led by military juntas, took over power. In order not to jeopardise the process of capital accumulation required for the expansion of industry, they initiated social repression.



Thirty years after the publication of his transfer model, Lewis commented upon his work in his acceptance speech for the Nobel Prize. With an exceptional display of intellectual sincerity, Lewis confessed that ‘development economics, which relies more on history, statistics and anthropology, may be a little more realistic than pure or theoretical models’<sup>36</sup>. Born in Jamaica, a region that was a living laboratory in development problems, the author should have known better from the beginning. However, most early economic growth models were constructed primarily on the basis of theoretical premises rather than on empirically tested processes and facts of the real world in development.

## **7. Development in relation to the international structure**

At the end of the 1940s, a group of Latin American economists working on the *Commission Economica para America Latina* (CEPAL), or the Economic Commission of Latin America (ECLA), formulated an original analysis of development posited in an international context<sup>37</sup>. From their vantage point, the external structural nexus was not only one factor amongst others, but was a basic determinant. This was the cardinal point in their theories and blueprints. The postwar thought on development by Latin American scholars bears a striking resemblance to the analysis formulated in the 1930s by the Peruvian nationalist Haya de la Torre. The basic emphasis of ECLA is on the asymmetry in the relations between the 'centre' and the 'periphery'. For instance, the gains of trade are unequally divided as the terms of trade usually move against the primary countries. This structural nexus, though, was overlooked by mainstream theory. As a think tank of a semi-industrialised region, ECLA adopted a critical and militant stance and posed as spokesperson for the Third World in general.

Their most authoritative leader was undoubtedly R. Prebisch, first chief of ECLA, and later Secretary General of the United Nations Conference for Trade and Development (UNCTAD). However, we should point out that the ideas brought to the fore by Prebisch are not the result of one man's work. They were passionately defended by a whole group of economists in Latin America. In time, they became common property in other developing countries as well. The fact that Prebisch occupied a key position in ECLA, and later in UNCTAD, helped spread these ideas world-wide though.

The theories of Prebisch and his colleagues were strongly influenced by the historical evolution of economic development in Latin America, with the focus on three main phases:

- *el desarrollo hacia afuera*: the dominance of commodity exports to industrial centres;
- *el desarrollo hacia adentro*: the interiorisation of development by means of import

<sup>36</sup> A. Lewis, 'The Slowing Down of the Engine of Economic Growth', Nobel Prize Lecture, in *American Economic Review*, n° 4, 1980.

<sup>37</sup> Prebisch published his thesis in 1949, elaborating upon it in later studies. For the final version, see R. Prebisch, *Towards a New Trade Policy for Development*, New York, 1964 ; CEPAL, *El Proceso de Industrialización en America Latina*, Santiago, 1965.

substitution industrialisation ; and

- *desarrollo hacia la integración*: the period of supra-national integration by means of enlargement of the markets and of co-ordinated industrialisation on the continental level.

The group surrounding Prebisch elaborated theories on the role of international trade in relation to development, monetary policy, currency control, tariff protection, supra-national economic integration, etc. For lack of space we will focus our attention on the central thesis only.

The neoclassical theory of international specialisation rests on the assumption of comparative advantage, which produces the following positive results:

- a. An optimal distribution of world income and a maximisation of income for all the trade-partners involved.
- b. There are indirect dynamic effects of international trade as well, such as the learning effect and absorption of technology.
- c. Last but not least, there are beneficial effects such as international competition in traded goods which keeps costs and prices in bound.

In contrast to the neoclassical view, Prebisch argues that international specialisation has been to the advantage of the industrialised countries only. Prebisch's criticism does not really attack the theoretical value of the celebrated Heckscher-Ohlin comparative advantage theorem, but rather its lack of conceptual realism. Indeed, the hypothesis relating to the perfect mobility of the factors of production, and in particular to the beneficial effects of free competition, is contradicted by the facts. If reality were to follow this theory, the comparative advantages would develop in favour of the countries producing raw materials. The facts have shown that technical progress and increases in productivity were much greater in manufacturing than in agriculture and mining though. If, as the theory suggests, the prices of industrial products had shown a more marked fall than those of raw materials as a result of the differential evolution of productivity, then the terms of trade would have developed in favour of the producers of raw materials. According to Prebisch, certain social and functional characteristics of the industrialised countries and of the oligopolistic markets for raw materials largely account for the fact that international specialisation was to the advantage of the industrialised countries. Among the internal factors he mentions, in particular :

- the low income elasticity of demand in the industrialised countries for products from countries producing raw materials ;
- the raw materials-saving innovations, such as synthetics.

Moreover, the quasi-monopolistic structures of the markets for internationally traded goods are to the advantage of the centre of the system. In the centre, a great number of powerful

and oligopolistic firms determine market prices. Competitive capitalism is only the case for small family firms and independent shopkeepers. The oligopolistic form of the market disturbs the mechanism, which in itself should lead to a fall in prices as a result of an increase in productivity. The evidence points in the opposite direction though. Productivity increases steadily, but prices do not fall proportionately. This can be explained, in part, by the institutional structure of the centre that regulates the power relations between capital and labour in the mature economies. In the industrial countries, the institutional pressure of the trade unions transforms the increase in productivity into income gains for its clients, under the form of a rise in wages. It is interesting to see what happens in a recession period when industrial activity slows down. During a recession both employers and employees are able to protect their profit-margin and their wage-level from falling. This is in contradiction with the theories on competition. Instead of a fall in prices for industrial products, a fall in prices of the raw materials is the outcome. The reason is structural again. On account of the almost perfectly elastic labour supply, and as a consequence of the weakness of trade-unions in the developing countries, an increase in productivity in those countries is transformed into a fall in price of the product.

The dissipation of export earnings is further explained by structural conditions in the world market. The producers of primary commodities engage in fierce price competition with suppliers of similar export products from other developing countries. In the price competition between primary producers, their wage earners receive the full shock by a drop in income. According to Prebisch, international specialisation has the following results for the periphery :

- a. A constant deterioration in the terms of trade, which presupposes larger and larger volumes of export to obtain an equal amount of export proceeds in monetary terms. This may be called 'immiserising growth' as opposed to welfare benefits.
- b. In Latin America the income elasticities for finished industrial products are increasing with the result that the demand for these imports rises. In the advanced countries, conversely, income elasticities for tropical food products are decreasing in relative terms. Their demand for commodity imports is, at best, constant in volume. The differential evolution of the income elasticities in the centre and in the periphery induces chronic balance of payment problems for the periphery. Indeed, the periphery's import trend of finished products moves at a structurally higher level than the centre's import trend of raw materials. As a result, the Latin American financial proceeds of commodity export are structurally insufficient to pay for the import of finished goods.

The policy guide-line that Prebisch has drawn from his analysis is that of an inward-looking development (*desarollo hacia adentro*) as an absolute priority. Industrialisation has to be oriented toward the substitution of imports, supported by the imposition of selected tariffs on industrial products from abroad. As it would lead us too far afield to analyse all the results of this markedly nationalistic industrialisation policy, it is sufficient

to make the following remarks. In the early and easier phases of this process there was a marked success. Most countries in Latin America witnessed a spurt in industrialisation. This had social consequences as well. Behind the protective tariffs, the populist regimes and their nationalist bourgeoisie gained some leeway to offer wage rises to industrial labourers and to their administrative and political clients. For the social groups which were increasingly integrated into this populist system of industrialisation, all went well from 1950 to 1965. However, the rising costs generated inflation, with the result that part of the income increase melted away.

The protective effect of tariffs insulated the national industry from outside competition. Encouraged by these initial political and economic successes, local industrialists and politicians alike pushed the industrialisation motor into overdrive. In line with their political creed, the populist regimes hoped to avoid a repetition of the class struggle that was characteristic of European industrialisation. In this they went too far. They granted social benefits beyond the productive capacity of the economy. The policy of subsidisation engendered more unproductive or uncompetitive factories than a sound economy can bear. After fifteen years of industrial euphoria, a political and economic crisis was in the offing. The development of 'final phase consumer industries' had, in many cases, stimulated an uneconomic industrialisation. As such, it transferred the problems from the field of exports to the field of domestic industry. Deliberate manipulation of currency by inflationary subsidising of industry had produced structural imbalances. The market dimensions were too narrow to enable a generalised build-up of the final phase industries to succeed.

In opposition to ECLA, prestigious economists and members of the reputed Brazilian Institute Getulio Vargas criticised the development models formulated by Prebisch and his disciples<sup>38</sup>. At their instigation, an important and interesting rear-guard battle was fought by the supporters of inflationary development against the monetarists, who were in favour of a more orthodox monetary policy. It produced the famous controversy between the monetarists and the structuralists<sup>39</sup>. The monetarists were supporters of the orthodox view. They advocated a policy of strict price stability, a balance of payments in equilibrium, and prices of goods more in accord with the competitive prices of the international market. In the view of monetarists there should be no contradiction between sound or stable money, equilibrium in the balance of payments, and economic growth. Simultaneous monetary equilibria, even in a situation of vigorous growth, depend on sound policy making. Permanent inflation weakens the purchasing power of the currency and discourages savers who see their savings account melting away. It also encourages unproductive and speculative investment. Finally, it induces the flight of capital from the periphery to the

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<sup>38</sup> E. Gudín, *Inflação e exportação, café, crédito, desenvolvimento*, Rio de Janeiro, 1959 ; K. Kafka, 'The Theoretical Interpretation of Latin American Economic Development', in *Economic Development for Latin America*, New York, 1961 ; R. Campos, *Economia, Planejamento e Nacionalismo*, Rio de Janeiro, 1963;.

<sup>39</sup> The debate dominated the economic forum in Latin America from 1955-65. See A.O. Hirschman, *Latin American Issues : Essays and Comments*, New York, 1961; W. Baer & I. Kerstenetsky (eds), *Inflation and Growth in Latin America*, Homewood, 1964.

centre. According to the monetarists, this would be one of the most paradoxical consequences of the nationalist-oriented development policies. A sound policy can redress these evils. An adequate fiscal policy and competitive industrialisation are able to check the overheating of the monetary system. In sum, long-run economic growth is better guaranteed by an orthodox policy.

According to the structuralists, conversely, inflation is an unavoidable accompaniment of growth in a situation of structural rigidities in the economy. As such it is not a pure monetary phenomenon. It belongs to the structural data of the developing countries, where the rapid urbanisation of the population and the elastic patterns of consumption engender inadequacies between national supply and demand. In this structural nexus the monetary authorities are unable to keep the rise of prices under control. In the structuralist view, inflation is not only inevitable in periods of rapid expansion ; it can also have a tonic effect on economic growth. In the developing countries, with relatively low average income and with a low savings ratio, tax authorities and savings banks are ineffective mobilisers of funds for capital formation. In these conditions, inflation can be effective as it functions as a transfer vehicle of funds in the direction of investment. Rising prices stimulate industrial investors.

In Latin America, ECLA always had more than an intellectual relevance. Prebisch was a charismatic intellectual leader and his staff consisted of young enthusiasts who spread the creed. They organised seminars and workshops for opinion makers and professors of economics. As a part of the United Nations Organisation, ECLA also had an influence on government officials in top level functions, especially in the economic segment of the bureaucracy in the whole region. They were in need of macro-economic blueprints oriented toward the concrete problems of the economies of the periphery, but distinct from the profit-seeking ideology of the business class and of *laissez-faire* economics. The doctrines of ECLA provided a more or less coherent scheme for industrialisation and for social reform that guaranteed a reasonable stream of profits and capital formation. Their blueprints for agrarian reform, however, met with more than polite opposition from the oligarchy that ruled over the *latifundia* of the region. The analyses and the policy programs, formulated with intellectual rigour and probity, were not always joyful music to the ears of the industrial establishment and of the populist regimes. Although ECLA legitimatised state guidance in investment, it also advised higher taxes and less conspicuous consumption by capitalists. The subsidies for industrial expansion had to be financed. It was an ideology and a program designed for 'enlightened' state managers who place themselves above the bickering between interest groups and lobbies. The theoretically supported plea for an alternative accumulation strategy, with advice to industrialists and populists to avoid class struggle, offered, with the hindsight of the military regimes that followed, an original and reformist blueprint for development.

## CHAPTER III : MODERNISATION AS WESTERNISATION

### 1. The heydays of Parsonian sociology

The rising expectations of the new states in Asia, Africa and Latin America overwhelmed the social scientists with the immensity of the changes taking place. Since most of them were unfamiliar with the concrete situation in so many different contexts of development, they fell back on the theories of Spencer, Durkheim, and especially those of Weber. In effect, they updated the process of the socio-cultural dynamics of nineteenth century Europe. As noted earlier, the Weberian discourse on the ambivalence of development and on disenchantment was considered to be a romantic after-thought of a tired European culture. The Americanisation of the Weberian heritage was the work of an influential Harvard sociologist, Talcott Parsons. On the basis of his rather abstract 'functionalist-structuralist' dichotomies, which were formulated in pompous language, his disciples founded the modernisation school. The most noted modernisers were D. Apter, L. Binder, D. Lerner, M. Levy, R. Braibanti, N. Smelser, S. Eisenstadt, A. Inkeless and G. Almond<sup>40</sup>.

From the foregoing analysis, it is clear that both the theory and practical models of development are, to a very high degree, dependent on the ideological inspiration and the life situation of the thematiser. Without consultation with the subjects for whom their models were intended, the designers of modernisation regarded 'their' constructs applicable world-wide. The indigenous views of the societies and cultures of Africa, Asia and Latin America were either ignored or dismissed as particularist stammerings. Central to early modernisation theory was the 'ideal type' dichotomy that conceives of societies either as modern or traditional. Most Third World societies were assumed to conform to the 'traditional' type, which is marked by the following general characteristics: a low degree of specialisation; a high level of self-sufficiency; cultural norms of tradition; particularism in human relations; relatively little emphasis on the money economy and the market; nepotism; and a one way flow of goods and services from rural to urban areas. In contrast, the 'ideal' type of modern society was assumed to exhibit the pattern variables and the developmental objectives of the first and most successful nation in the world, namely, the United States.

In a concerted effort, modernisation theorists devoted much of their energy to the elaboration of numerous conceptual schemes. Most of these theorists had no time to gather data on the concrete context of the socio-cultural dynamics and of the economic transformation by way of field work. As such, the theories served as stylised surrogates for the lack in concrete data. Development was conceived to be an homogeneous and universal transition from tradition to modernity. In this trajectory, the following pattern variables were determinant: from primitive, subsistence economies to

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<sup>40</sup> For a comprehensive and critical overview, see W. Moore and R. Cook, *Readings on Social Change*, Englewood, 1967 ; A. So, *Social Change and Development*, London, 1990.

technology-intensive and industrialised economies ; from passive to participant political cultures ; from closed, ascriptive status systems to open, achievement-oriented systems ; from extended to nuclear kinship structures ; and from religious superstructures to secular ideologies. In the following scheme, we reproduce a fairly representative sample of the traditional-modern dichotomy that was used by the research team of the influential Ford Foundation :

*Traditional Society*

- a. Predominance of ascriptive, particularistic, diffuse patterns.
- b. Stable local groups and limited spatial mobility.
- c. Relatively simple and stable 'occupational' differentiation.
- d. A 'deferential' stratification system of diffuse impact.

*Modern Industrial Society*

- a. Predominance of universalistic, specific and achievement norms.
- b. High degree of social mobility.
- c. Well-developed occupational system, insulated from other social structures.
- d. 'Egalitarian' class system based on generalised patterns of occupational achievement.
- e. Prevalence of 'associations', i.e., functionally specific, non-ascriptive structures.

The societies of Asia, Africa and Latin America were perceived as being backwards. The conceptual schemes depicted the religious and cultural traditions as 'obstacles' to modernisation. To counter the weight of tradition, the secularisation of the superstructure and the urbanisation of lifestyles were perceived to be primary objectives. In a study written by an influential theorist, B. Hoselitz, we read the following biased typology of Asian society :

Let us consider the 'oriental' type of society as showing the characteristics of the kind of underdeveloped economy in which we are interested.... Usually it exhibits fairly pronounced and rigid structural relations and is dominated by an elite which enjoys a monopoly of wealth, political power, and education which are the main status-conferring social elements. With reference to economic values the members of this elite, acting in performance of their social role, are predominantly self-oriented. In contrast, members of the political, and to some extent even the economic, elite in advanced countries exhibit predominantly collectivity-oriented attitudes with reference to economic goods<sup>41</sup>.

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<sup>41</sup> B. Hoselitz, *The Sociological Aspects of Economic Growth*, Chicago, 1960.

This statement is but one example of a rather audacious inversion of value orientations. The elites of the capitalist West (especially in the United States), who are presented as self-interested maximisers in most economy textbooks, appear here as altruists. We can only surmise what the reactions of the progressive Asiatic leaders like Nehru, Sukarno and Mao would have been.

## **2. The approach of social psychology**

A good portion of the modernisation treatises directed their attention to the macro-level of society, treating it in terms of the nation state. The modernisation school, however, also had an influential socio-psychology department, in which D. Lerner, A. Inkeless and D. McClelland were the intellectual trend-setters. The psychologists of the movement were quick to point out the serious flaws in the traditional-modern schemes of their sociologist colleagues. According to them these schemes only provided a classificatory way of telling, in complicated terms, that the West was modern and all the rest traditional. As such, they set out to explain why some societies modernised faster than others<sup>42</sup>.

The traditional-modern dichotomy started from the premise that all non-Western societies are alike. By extending the same typology to a great number of very diverse cultures, they ignored the myriad of historical differences in the Third World. Pigmy tribes, Tokugawa Japanese, Trobrianders, the *indios* of Peru, the Hindu villagers, the fellahin of the Islamic world, the Kikuyu and others, are all treated in the same manner. This ethnocentric glorification of the American dream by modernisation theorists was not the result of painstaking field research. Rather, it was cultural imperialism disguised by scientific bombast.

In spite of the wide variety of development situations in the Third World, the early model builders (economists, sociologists and political scientists) chose to formulate broad theoretical constructs, the coherency of which was more attributable to the underlying paradigm than to the empirical date before them. In line with its basic ideology, the modernisation paradigm emphasised stability at the expense of change and social justice. Its models were ideologically determined modes of analysis. As opposed to providing clearer insights, they distorted our understanding of the complexity that characterises the dynamics of development.

The modernity paradigm came into overt crisis when it became apparent that the reproduction of Western capitalism in the Third World generated unexpected problems, conflicts, failures and breakdowns. While the most militant modernisation theorists soldiered on bravely, some heretics distanced themselves from this naive dogmatism and turned their energy toward a critical analysis of the breakdown in the process of development. It should be noted here that the modernisation school was not a monolithic

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<sup>42</sup> D. McClelland, *Achieving Society*, Princeton, 1961 ; A. Inkeless, 'Making Man Modern', in A. Etzioni (ed.) *Social Change*, New York, 1964 ; D. Lerner, *The Passing of Traditional Society*, New York, 1965.



block. A large group of anthropologists, historians and comparative sociologists professed more realistic and nuanced views, as for instance Clifford Geertz, Sylvia Thrupp and P. Worsley. The mainstream version was not only criticised by leftist writers though. It was also questioned, and in many cases corrected, by field workers who had their permanent base *in situ*, that is, in the field where the problems arise.

## CHAPTER IV : EMPIRICAL ANALYSES INSPIRED BY FIELD WORK

### 1. An overview of method and findings

By the end of the 1940s, the new ideas on social and economic welfare had reached the colonies. Even before the outbreak of the Second World War their administrations had felt the winds of change. With a remarkable sense of prophecy, the British Colonial Development and Welfare Act of 1939 stated that 'development and welfare will be the cry of the generation that follows the present one'. After the Second World War, the ferment of these ideas led to a change in the philosophy of colonial trusteeship. In the wake of this reorientation several research institutes were set up in Africa and Asia. In these think-tanks, anthropologists, sociologists and economists focused their analyses on the social and cultural prerequisites of development and on the consequences of enforced acculturation<sup>43</sup>.

Empirical studies were produced by field workers who shied away from the grand theories which were of no great practical help. The field researchers largely concentrated on topical area studies, but some of them explored problems of a more general nature. In Indonesia, scholars like J. Boeke, B. Schrieke, J. Van Leur and W. Wertheim conducted research in which the cultural, political, social and economic aspects of development were integrated in an interdisciplinary approach. Inspired by the socio-historical methods of the German Historical School, they revealed the ambivalence of enforced acculturation and they illustrated the inherent dualism of the colonial societies. W. Sombart's notion of *Zwiespalt* or dualism was adopted by most of them<sup>44</sup>.

In Boeke's theory on the village economy of the Eastern traditional societies, the social and cultural variables that regulate the subsistence sector took pride of place. In his view, colonialism creates a dualism since it superimposes an external social system on the local one. Boeke asserts that social dualism is the clashing of a dominant social system with an indigenous social system of another style. Most frequently the dominant system is high capitalism. But it may be socialism or communism just as well, or a blending of them. The Indonesian village community (*desa*) functions on pre-capitalistic principles and continues to live largely unaffected by the superimposed Western system. People in traditional eastern societies do not behave like the *homo economicus* of Western theory as their material needs are very limited. On the contrary, their social needs, culturally determined by a person's social embeddedness, are of greater importance than those postulated by an individualistic theory of utility. In the community-oriented traditional *desa*, pure economic calculus leading to accumulation is curbed by a mechanism of redistribution, that is, of sharing with others. Moreover, the limited material wants creates

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<sup>43</sup> H. Arndt, *Economic Development : The History of an Idea*, Chicago, 1987.

<sup>44</sup> The most prominent was J. Boeke, *Economics and Economic Policy as Exemplified by Indonesia*, New York, 1953.

a natural ceiling to the motivation for overwork or drudgery beyond the subsistence level. This culturally determined structure of motivation results in a backward sloping supply curve of labour. For Boeke, this was one of the essential differences between Western and Eastern economies. Boeke's treatise, though, was an idealised perception of the communal ties in the *desa*. As such, its basic tenet concerning the all but absolute inelasticity of its productive and accumulative capacity overstated the static nature of the rural economies.

The Dutch scholar was a social reformer, sympathetic to native society and its values. He became disillusioned with colonial policy not only due to its political dominance, but especially because it generated capitalist production and individualist ideas. Through its institutionalised policy and enforcement of capitalist production, the pursuit of individual material gain was fostered in a culture where community values prevailed. Boeke's static view and his idealised theory were unpalatable to colonial administrators and orthodox economists alike. They turned a deaf ear, claiming instead that the concepts of pure economics must be taken as having universal validity. Orthodox economists felt that historical and cultural relativism would discredit their science. As most of them were unfamiliar with any culture other than their own, they myopically viewed the idea absurd.

In Africa, a number of British, French and Belgian researchers embarked on field work in multidisciplinary teams. They added new study topics such as the analysis of migrant labour, the effects of detribalisation in the emergent urban centres, the messianic movements, the transformation of the subsistence economy, the land tenure systems in clan societies and its evolution, and the consequences of rural exodus on the division of labour between man and wife. The list of anthropologists and sociologists is an impressive one, and we mention only the most influential : G. Balandier, L. Mair, R. Firth, J. Maquet, P. Mercier, A. Southall, M. Glucksmann, J. Vansina and D. Paulme<sup>45</sup>. Economists like P. Deane, P. Leurquin and myself were interested in national accounting in countries with a large subsistence sector, but also in more dynamic processes such as the functioning and transformation of subsistence economies; the impact of markets; the generalisation of money; and the change of production and consumption patterns<sup>46</sup>.

The sociologists and economists who worked in the field arrived at the insight that the economy is 'embedded' in a social and cultural web. In these societies, the economy functions as a by-product of kinship, social, and political relations and obligations. The socio-cultural matrix arranges production, distribution and allocation of resources and status symbols in various ways, that differ from one concrete historical situation to another.

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<sup>45</sup> The French sociologist G. Balandier was one of the first to draw attention to the destructure of the traditional social fabric, first by colonisation and afterwards by Westernisation. The people of the Lower Congo reacted to this cultural imperialism in a series of messianic movements, the most famous being Kimbanguism. These collective grassroots protests were the predecessors of the movements for (political) independence. See G. Balandier, *La sociologie actuelle de l'Afrique, Noire*, Paris, 1955.

<sup>46</sup> L. Baeck, *Economische Ontwikkeling en Sociale Structuur in Belgisch-Kongo (Economic Development and Social Structure in the Belgian Congo)*, Louvain, 1959. The study written by P. Leurquin, *Le niveau de vie des populations rurales du Ruanda-Urundi*, Louvain, 1960, is to my knowledge one of the best.

Reciprocity or obligatory gift-giving between kin and guests and communal redistribution are important determinants in the social and economic behaviour patterns of traditional society. In Africa and in other parts of the world, rights in women are considered the highest form of social wealth. The same is true for sacred cows and other cattle that are accumulated for reasons other than the material yield of the herds. Conversely, a very important production factor such as land was almost never perceived as an object of private appropriation. Clans and tribes regarded it as sacred. It could be temporarily used by members of the clan, but it could not be alienated or sold. Indeed, the most intricate conflicts between colonial administrations and local inhabitants resulted from misunderstandings concerning traditional land tenure systems. As the subsistence economies were based on shifting cultivation, clan rights over land extended far beyond the inhabitable area at any one particular moment of time.

However, contact with the market economy of the West generated complex situations of change and transition. This is borne out by the research findings, of which a schematic overview follows. The introduction of cash crops like tea, coffee, cocoa and cotton, or of vegetable and food production near urban centres and rural markets, transformed the material and functional context of the subsistence economies. Millions of small plot farmers engaged in these forms of production in order to gain the purchasing power earned by these products. Gradually, production and cash exchange penetrated the rural economy, and the propagation of new consumption goods followed. The gradual monetarisation of the barter economy, the availability of industrial consumption goods, production instruments and other inputs that were labelled 'inducement goods', confronted the peasants and their families with a new gamut of artefacts and status symbols. New employment opportunities, such as salaried work, provided yet another impetus to the monetarisation of transactions. They familiarised ever more people with the functioning of markets, as well as with the occasionally erratic price formation in a market economy. This change in the functioning of the rural and semi-urban economies in our age was induced by the desire for consumption goods. This is called the 'demonstration effect'. The purchasing power earned by cash crop production or by salaried work was promptly consumed. In most cases, this either left a rather low level or a total absence of savings for investment.

The research findings of social scientists in Africa and Asia confirmed the weight of the social and cultural factors in the traditional economies. This weight was illustrated by studies on the economics of gift-giving (*l'économie du don*), the importance of ceremonial exchange, the functioning of clan solidarity, the technical limits imposed on growth in subsistence economies, and on the relatively low threshold of motivation to create an elastic supply of labour and goods in closed societies. On the basis of more detailed studies, however, it was demonstrated that a different situation evolved as soon as these closed economies were opened up by commercial exchange. Monetary exchange set the dynamics of rising expectations in motion. On their return to the village after long absences in town, migrant labourers arrived with cash earnings and with new consumption goods. The original limited wants gave way to a more elastic consumption pattern, in

which social mimetics functioned as a stimulus to social and economic change. In my own research on the dynamics of rural and urban societies in Central Africa, I discovered that the exposure of traditional enclaves to commercial exchange and to new opportunities for non-agricultural work and income generated rather elastic consumption patterns. Reference behaviour, inspired by the imitation of the trend-setters in this transition period, worked as a powerful motor of change in consumption. Cultural and social factors, such as ceremonial exchange, gifts to senior relatives, land tenure systems, bride-price, etc., continued to be important but they underwent a notable change due to their gradual monetarisation.

Most findings made it clear that, due to the varying circumstances and socio-historical contexts, this change did not move along a unidirectional path of acculturation and gain in material welfare. Some tribes moved along faster than others. There were regions that readily opened up to innovation, whereas other areas went into decline. In some cases tradition received a new vitalism in modern clothes, even while the rising new social classes were ebbing away from the traditional mould. Social scientists illustrated the ways in which slumbering tribal and customary conflicts were now manifested in the very different responses to acculturation and development. Some tribes, like those of the Lower Congo, could not bear the pressure that accompanied their incorporation into the colonial jacket, and so took refuge in the past. The forces that ripped their societies apart created a context in which the messianic movements took the lead. These movements were studied in detail by G. Balandier and other social scientists. Missionaries and colonial administrators were unnerved by the mass following of these exuberant solidarity makers, as the aroused masses sporadically erupted in xenophobic uprisings and revolts. Anthropologists, on the contrary, perceived these eschatological dreams, adroitly canalised by charismatic leaders, as the cultural protest of a wounded and alienated society. Those who joined the messianic movements were people traumatised by the rupture in the traditional bonds, as a consequence of inadequate methods of enforced modernisation. From the vantage point of researchers the messianic movements were looked upon as the cultural forerunners of political freedom fighters. The frequent reference to biblical passages, such as the David and Goliath legend, gave a clear indication that colonised peoples, when charismatically aroused, have a firm belief in their moral superiority (David) over a temporarily dominant (Goliath) but alien culture. In the already politically independent societies such as Brazil, the messianic movements were said to function as carriers of grassroots protest, voiced by rural people against their marginalisation by urban elite groups. The cargo cults of Melanesia, however, were rooted in a more material base. They revealed how the frustrated consumption aspirations of poor natives, confronted with the opulence of a dominant culture, can generate a myth of 'paradise lost'. The indigenous people understood this loss to be a result of foreign spoliation<sup>47</sup>.

The growth in the number and size of towns has been, and continues to be, one of the most

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<sup>47</sup> A detailed analysis of the cargo cult is given in P. Worsley, *The Trumpet Shall Sound*, London, 1957.

important social and economic phenomenon characteristic of the transformation processes of the new countries. After World War II, the pace of urbanisation went into high gear. In the colonies the novelty of its dynamics attracted the attention of researchers. In my own field work, conducted in Central Africa, I studied the social and economic aspects of rapid urban growth in Bujumbura (Burundi) and in Kinshasa (Congo), and its consequences on the rural countryside.

Up to the 1940s, most colonial towns had lived the tidy and somnolent existence characteristic of administrative centres surrounded by commercial activities and by an embryonic industry. After the war, the more active development policies of colonial governments was going to change this. From 1945-55 most towns of black Africa tripled, and some quintupled, the number of their African populations. During this process of growth, which accelerated after 1955, the numerical ratio between the European and African populations dropped from 1:20 to 1:30. In some cases, the Africanisation of the urban centres developed even more quickly. Initially, the urbanisation of these new countries was the result of migrant, male labourers who moved to the cities, but returned to their village after a couple of years absence. Later, a more voluminous rural exodus began, in which women and children joined the migrant workers. The result of these dynamics was apparent in the formation of 'demographic pyramids' in, for instance, the capital Kinshasa, in a representative small town like Bujumbura, and in a rural region like Thysville surrounding the urban centres. These three areas illustrated this state of demographic transition at the moment of my enquiries in 1955<sup>48</sup>.

In Kinshasa, adult males were predominant until the 1980s, while in the smaller representative towns the demographic equilibrium between the sexes was established earlier. Conversely, in a representative rural district around town, the absence of male adults and the predominance of women is clearly demonstrated by the unbalanced pyramid. This demographic imbalance, especially in a large radius of rural areas around the urban centres, had its effects on agriculture. The young adult males moved (temporarily) to town and left the spouse in the village to work on the land. More than in the past, agriculture became an activity for women. By the end of the 1950s, rural exodus gave a still stronger impetus to the already overgrown urban centres. Shanty towns mushroomed and became crowded monster cities. The attraction of the urban centres to rural people can be explained by a number of factors : the aspiration for better paid salaried employment, the availability of better educational and medical facilities, the possibility of work in the informal sector, as well as a sense of adventure and excitement. Moreover, the intense urbanisation process was moved by a powerful psychological lever, namely, the idea that all important things happened in town. Townspeople, even those living an immiserising existence in the shanty towns, felt superior. They considered the rural 'leftovers' as 'backward' people.

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<sup>48</sup> L. Baeck, 'Léopoldville, phénomène urbain africain', in *Zaire*, n° 6, 1956 ; L. Baeck, 'Une société rurale en transition : étude socio-économique de la région de Thysville', in *Zaire*, n° 2, 1957.

Sociologists were particularly interested in two novel aspects of this rapid urbanisation : the effect on social behaviour in a situation of detribalisation and the progressive ruralisation of towns. The sociologists reread their classics on *anomie*, or on the erosion of social and ethnic bonds, which they referred to as the 'social nakedness' of the detribalised urban people. In most new urban centres, however, a creative response curbed the plight of immiserising growth by the ruralisation of large urban sectors. In these areas, the marginalised immigrants organised a way of existence which was a mixture of half urban and half rural life, the so-called informal sector. New social ties and means of material existence evolved. Even in the most miserable parts of the shanty towns, which increased due to a steadily increasing rural exodus, the initial catastrophic prophecies were averted by social inventiveness.

## **2. The institutionalist approach of Myrdal**

One of the most influential critics of the modernisation rhetoric was Gunnar Myrdal, a Swedish social scientist who had done research on the 'Negro Problem' in the United States. In a series of studies, of which *Asian Drama* became the most celebrated, he castigated the cultural imperialist premise of modernisation theory. With his more open stance, which takes the cultural and social aspirations of the people and of the elites of the 'soft' states into account, Myrdal profiled himself as the mentor of the institutionalist school of development. In his publications he hammered out a more sensible approach. He worked on the assumption that the local configuration of social reality and cultural values, as well as the various indigenous concepts of development, were more determinant than external forces. On account of this, the economically peripheral societies were culturally not as 'soft' as the phalanx of modernisers presumed. Age-old cultures and world visions have a resilience and a capacity for adaptation that the Social Darwinists of America and the modernisation theorists had insufficiently realised. Srinivas, an Indian sociologist, illustrated Myrdal's premise with his study on *Sanskritisation*. The introduction of modern education, radio and TV spreads the Sanskrit tradition to wider and lower casts, with the result that the diffusion of the Brahmin knowledge and norms tended to bring the different casts nearer. Not secularisation, but *Sanskritisation* is here the determinant of democratisation.

The naive cultural imperialism of the early modernisation model had overlooked the authentic potential and capacity of their subjects to resist. The emergence of conflicts between social classes, the struggle for power between elites, the alternative models of capital accumulation and growth, the radical resistance against Westernisation by messianic movements, the assertive ideology of self-reliance, etc., strongly evidenced that the central tenet of modernisation theory was wrong. Its basic assumption that rapid economic growth, democracy and acculturation follow automatically and are accepted with enthusiasm by all 'newcomers' in history, was clearly unrealistic. The unexpected resistance, conflicts and problems indicated that the exclusive attention of the modernisation phalanx to objectives or *ends*, and the neglect of ways and *means* to achieve

them in so many different societies and cultures, was a misconception.

The severe criticism directed at the schematic stereotypes of the early modernisation theorists was not lost. Moreover, the younger modernist theorists were influenced by the cultural revolution in Iran, of which the Shi'ite clergy had been the locomotive. The revisionists of the modernisation school realised that the secularisation thesis did not necessarily materialise in all cultures. As such, they attended to reality and brought the forgotten dimensions, such as tradition, history, culture and religion, back into their studies. This significant paradigm shift, in the direction of indigenisation and postmodernism, was a remarkable illustration of the development in development theorising<sup>49</sup>.

### **3. An early neoliberal voice**

To conclude our survey of field research, we will briefly consider the studies of Peter Bauer on the rubber plantations in Malaysia and on cash crop farming in West Africa<sup>50</sup>. Bauer, a neoliberal, contested the positive role of state interventionism that was fashionable at that time. He unambiguously stated that orthodox theory, based on the rational calculus of the *homo economicus*, was sufficient to explain economic behaviour in developing countries. He bravely challenged the relevance of theories that stressed the socially and culturally embedded nature of economics. In his study on West African farming, he demonstrated that the 'trader's frontier' provided the initial stimulus to the expansion of cash crop production. Small traders provided and extended markets, transformed producers into consumers, and created new wants, thereby opening new opportunities to responsive producers and consumers. Although neglected by later development theorists, small farmers and traders were a seed-bed of entrepreneurial spirit and surplus creation. Against Boeke's static dualism and the opinion of the more authoritarian colonial administrators, Bauer profiled the small farmers as shrewd profit-seekers and effective innovators who often out-performed the productivity levels of large estates. According to Bauer, their ultimate failure to ensure development was not due to traditional socio-cultural values. Rather, this resulted from the West African Stabilisation Boards which had been set up by the colonial administration to dampen the price fluctuations of crops resulting from business cycles in world demand. According to Bauer, these Boards became instruments of heavy, persistent and discriminatory taxation. The new governments in need of income deliberately reinforced their taxation practice, so that the Boards functioned as a transfer mechanism of resources from the rural economy to the burgeoning state apparatus and to the privileged urban population. This had a strong demotivating effect on the farmers and on the agricultural development of the new nations.

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<sup>49</sup> D. Apter, one of the well-known Parsonians, converted to revisionism and took a lead in the new direction. See D. Apter, *Rethinking Development: Modernisation, Dependency and Postmodern Politics*, Newbury Park, 1987.

<sup>50</sup> P. Bauer, *West-African Trade*, Cambridge, 1954.



In his study of the rubber plantations in Malaysia, Bauer described how Western enterprises organised and financed large-scale recruitment and migration of unlettered workers, mainly from China and India. According to Bauer, these activities of Western enterprises had 'unintended and unexpected' consequences. The imported Chinese saved their salaries and entered into trade activities as soon as possible ; the Indian immigrants did the same but with lesser results; and the native Malay people lagged far behind. However, Bauer did not probe deeply enough to account for the different responses of the Chinese, Indian and Malay peoples. The varying responses may be explained by important differences in the socio-cultural contexts of people confronted with the same challenges of adaptation. The Chinese, originally imported as coolies, were cut off from their own social and cultural environment. Being immigrants, the majority of them had nothing to lose and thus were eager for a better way of life. With a sense of purpose they left behind the shackles of tradition. Conversely, the local Malay workers were embedded in their social and cultural environment, and as a consequence they responded more slowly to the new economic opportunities. Cultural differences, not only ethnic, are important after all. In sum, in his zeal to demonstrate the pull of market opportunities, Bauer ignored the socio-cultural matrix that influenced the different responses.

## CHAPTER V : POLITICAL THEORY IN SUPPORT OF THE MILITARY

By the mid-sixties, the international scene had been transformed : Japan and the European countries had caught up with the American forerunner. Communist Vietnam had proven to be a tough military and ideological challenge. In America, the country of the liberal utopian dream, a series of events had traumatised public opinion and the social scientists. Successive political murders (for example, the Kennedy's and Martin Luther King) and the cultural rebellion of the students, had demonstrated that the country of the liberal 'utopia' had its own problems and breakdowns in modernisation. For modernisation theory, this was a time of revision toward a more conservative paradigm of order and stability.

The early modernisation schemes were also criticised by the political scientists who considered themselves to be more realistic. A reassessment not only of theory but also of the accompanying policy guidelines set in, oriented toward the political implementation of order and stability. With the gradual erosion of the democratic ideal, regime stabilisation (even with the helping hand of authoritarian or military regimes) was deemed preferable to the diffusion and reproduction of liberal, but unattainable, goals<sup>51</sup>.

In this model-shift of theorists and policy makers, the American political scientists took over the lead from the sociologists, who were discredited on account of their naivety. From the outset, the political scientists stated that the classical notion of consensus, as a prerequisite for democracy, should be reassessed within the particular context of the new states. They held that the ethos of the bureaucracy and the training conducive to it were of considerable importance, especially in these heterogeneous societies where the mass values are different from those of the ruling elite. As such, during this transformation the civil society and the peoples of the new states were eclipsed. Instead, the bureaucracies and the political regimes became the sole foci of attention. Western political science felt it must accommodate itself to the idea that in the early phases of political development, bureaucracies do not have to play the neutral agent responsive to the aspiration of the masses. In this line of thought, the role of the military bureaucracy also needed to be re-evaluated.

Civil rulers may not be strong enough to perform adequately in the midst of political disorder ; that is, they may not be as effective as a military bureaucracy in achieving order and stability. These arguments were already published in an American study as early as 1961 by R. Braibanti, in his treatise 'Political Science and Underdeveloped Countries'<sup>52</sup>. In this nascent militarisation of thought in American political science, the empirical arguments for stability and for the economic interests of the hegemonic power took

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<sup>51</sup> D. O'Brien, 'Modernisation, Order and the Erosion of a Democratic Ideal', in D. Lehmann, *Development Theory*, London, 1979.

<sup>52</sup> This study on the political role of the military was published in his reader. See R. Braibanti, *Tradition, Values and Socio-Economic Development*, Durham, 1961.

precedence over the cherished liberal ideals. The military was idealised as being a more efficient, rational and reliable planner than the civil leaders who were formed in the literary and ideological tradition.

In another passage of the same study, Braibanti proclaims that:

Of all sectors of the public bureaucracy the military, by virtue of its mission, can be expected to discard more quickly both the intuitive disposition of the masses and related literary generalist tradition of the civil bureaucracy. Although it is preoccupied with the requirements of order and stability, its concern for precision in situation analysis disposes it favourably toward empiricism.

The pragmatic re-evaluation of cold-blooded expediency, the depreciation of people's aspirations, as well as the departure from the social and cultural imagery of the civil elite projects, is clear enough. And, in a lyrical climax Braibanti concludes that the military officer embodies ideals and manifests a zeal, sense of sacrifice, and devotion to duty greater than any other element in society. Finally, in a footnote to his study he adds that 'the officer corps in Southeast Asia are the only hope for maintaining stability in the face of communist threat. They should therefore be encouraged and supported by the United States'.

In the conservative revisionism of American political science, the institutional instability of the new states was not perceived to be the result of the social and economic alienation of large numbers of the population. The instability and disorder were regarded as the consequence of a too-intensive mobilisation toward the socio-political awareness of the masses. In such a situation, characterised by unripe masses and soft civil leaders, the military was hailed as the wise harbinger of law and order and as the saviour of the nation. That the restlessness of the masses was also an expression of protest against the social, regional and welfare inequality of the development strategies did not come to the attention of these legitimisers of the military.

Halfway through the sixties, then, the normative prescription that the institutional structures of the new states should be imposed on the masses from above became a major tenet of American political science. Although they were all fiercely anti-Communist, these law- and order-warriors did not disguise their admiration for the Soviet leaders who managed to contain the discontentment of the deprived masses, as well as the tensions arising from the ethnic and cultural diversity following the Second World War. From their vantage point, the ideal of democracy based on popular representation, and of social representation by trade unions and peasant movements, were regarded as dangerous. Capital accumulation should preferably proceed at the expense of the rural masses and through the stabilisation of urban wages at a relatively low level. In most new states the accumulation of capital, bought by a too heavy social sacrifice, created disorder. The civilian rulers appeared to be incapable of engineering the forced savings required to fuel the take-off. As the populists proved unable to meet the challenge, the military stepped in

and took over the harsh task of social repression. In Brazil, this *linha dura* engendered an economic miracle but it was of short duration.

At the end of the 1960s, the transnationalisation of industry came into full swing and reached the developing countries. The nationalist civilian leaders, who considered import substitution industrialisation as an economic expression of self-reliance, were considered to be unsuccessful nationalists from a past age. For 'empirical' reasons the military junta's, amongst whom most of the top level officers had received an American training, seemed to be more compliant to the globalisation of Western industry.

A number of political scientists, of whom the most influential are S. Huntington, J. La Palambora, F. Riggs, L. Pye and M. Janowitz, agreed that the simultaneous realisation of capital accumulation, social reform and democracy was almost impossible. The social reform ideal of the early Alliance for Progress initiatives was considered unattainable by some, and outright dangerous by others. These reforms would jeopardise capital accumulation and invite a class struggle between the masses and their industrial and rural oligarchies. Agrarian reform and trade union activities were not only frowned upon; they were repressed by the hard line regimes.

Rapid capital accumulation and incorporation into the transnational industrial system, under orderly conditions created by authoritarian elites, received an encouraging nod from American theorists and policy makers alike. Samuel Huntington stated that the social forces in the new states must confront each other 'nakedly'<sup>53</sup>. In such situations, praetorian rulers are to be preferred to other elites. In his study on the military Janowitz markedly dwells on the superior quality of military organisation<sup>54</sup>. Ultimately, the erosion of hegemony and the relative decline in economic power in comparison with Europe and Japan, induced the United States to a dangerous inclination, namely, *the militarisation of thought and of foreign policy*.

Janowitz depicts the officer class and its common values in most laudable terms. He asserts that more than civilians, they are 'committed to modernisation, moved by a sense of Puritanism and an ethos of public service'. However, not all of his colleagues agreed. Some preferred civilian leaders supported by a strong party, insofar as they were also able to 'dominate the social forces and dynamics'. In the aftermath of the breakdown of several populist regimes in Latin America, Asia and Africa, the American political scientists seemed to be very impressed by the Leninist principle of centralism. There was only one difference: they supported praetorian elites from the conservative right wing to keep the progressive social forces at bay.

Many of the political scientists were engaged in technical assistance missions and in foreign policy task forces. In the defence of American interests abroad, they proved to be

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<sup>53</sup> S. Huntington, *Political Order in Changing Societies*, New Haven, 1968.

<sup>54</sup> M. Janowitz, *The Military in the Political Development of New Nations*, Chicago, 1971.

as ruthless as the most daring policy makers in the State Department and the Pentagon. Latin American novels such as *Señor Presidente* by Asturias, and some of Graham Greene's best-sellers, provide colourful versions of these questionable enterprises. With the aureole of the Camelot legend, they profiled themselves as the chivalrous knights of the Grail fighting against the so-called forces of evil, especially when American hegemony was contested by nationalist or reformist leaders.

The hard liners dropped 'political culture' as the main determinant, giving precedence to the cohesive force of praetorian regimes. The radical structuralists and marxists directed their attention to the origin, as well as to the function and role, of the dominant classes in the peripheral societies and in their states. The subordinate place of the Lower Developing Countries (LDCs) in the international division of labour, the alternative cycles of capital formation and industrialisation, placed the state central stage as the initiator and arbitrator in development. The centrality of the state in a situation of peripheral development rendered the struggle for dominance of state power the supreme test.

The implications, for development, of the class relations of the postcolonial societies and peripheral countries requires analysis. Indeed, in most LDCs, the state appropriates a very large part of the economic surplus and deploys it in bureaucratically directed activity in the name of promoting development. In the early postwar phase, the vanguard movements of the national freedom struggles in Africa and Asia, as well as the reformist and populist regimes in Latin America, inherited the mantle of democratic legitimacy.

When the spell of their charisma faded, or when their failures became manifest, the military took over and bestowed upon itself a new mantle of legitimacy, that of national security and stability. Due to the conflicts created by the implementation of reformist development strategies, the opinion that internal enemies are more dangerous than external ones gained ever wider audiences. The legitimisers of the authoritarian regimes were avid readers of Karl Popper's *The Open Society and its Enemies*. The authoritarian regimes posed as forces of pacification in the conflicts between the national oligarchies, the local reformists and the foreign influences and interests. The opinion that only a military bureaucracy could do the job well became dominant amongst conservative political revisionists in the West and in the new states. On the presumption of their efficacy and of their relative freedom of manoeuvre against social protest, a new era of postwar development began.

## CHAPTER VI : DEPENDENCY THEORIES AND NEOMARXISM

### 1. The early dependency school

The contribution to development theory and practice by marxists and dependency theorists differs from the economic growth and modernisation schools not only in terms of policy implications; their ideological inspiration and world views are also anchored in opposite poles. Common to both marxist and dependency theorists is their critical approach and a deep sense of frustration with the world they live in. Their thematisations are differentiated products of the same *crisis syndrome*. As most of the authors adhere to the radical socialist or marxist creed, critical analysis is applied only to the dark side of capitalist development. In the voluminous literature, the concrete processes of development in places like the Soviet Union, Cuba, China and the Comecon area are markedly absent. A more representative description of these two groups would be that of a radical critique of the historical trajectory of the capitalist accumulation cycle, looked upon from the periphery of the world, with a conscious neglect of Soviet imperialism.

The dependency theories originated in Latin America in the mid sixties, when some radical structuralists, most of them former disciples of ECLA, felt a growing frustration with its reformist policies. Brazil was the source of inspiration for dependency theories in the first instance. Here, the failure of import substitution industrialisation and of social reform by *populismo* was followed by a military regime, which opted for the insertion of the country into the transnational industrial circuit. From the time of Haya de la Torre, a Peruvian *pre-dependencia* theorist of the thirties, Latin American intellectuals have been alert students of the structural and international constraints of development. In Brazil, a group of social-democratic sociologists and economists rekindled interest in radical structuralism<sup>55</sup>. Prolific writers like Celso Furtado and Fernando Cardoso took the lead in this trend in Brazil. Oswaldo Sunkel originated this line of thinking in Chile. F. Cardoso was undoubtedly one of the most productive and imaginative authors on dependency. From 1960-65, at his research centre in São Paulo, he began concrete field research on the *empresario industrial*, that is, on the captains of Brazilian industry. This formed the empirical base of his theories on the special historical context of economic elite formation in a dependent economy. From 1966-69, his fully developed version of dependency blossomed. In this historical and comparative study of the whole region, he was assisted by the Chilean historian E. Faletto<sup>56</sup>.

The authors adopted the ECLA-doctrine that the insertion of their economies in the international division of labour resulted in negative side-effects, such as dependency on the external terms of trade. The novelty of their approach lay in the fact that they analysed the

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<sup>55</sup> For a more comprehensive review of the *dependencia* school, see D. Tussie, *Latin America in the World Economy : New Perspectives*, London, 1983; C. Kay, *Latin American Theories of Development and Underdevelopment*, London, 1989.

<sup>56</sup> F. Cardoso and E. Faletto, *Dependencia y Desarrollo in America Latina*, Mexico, 1969.

socio-political by-products of this economic process. In such a situation, the populist regimes witness the growing opposition between the oligarchs who support the export base in agricultural and mining products, and the industrial entrepreneurs who embark on import substitution. The surplus created in such a mixed economy is partly drained to the metropolitan centres, and part of it is appropriated by the state in order to subsidise import substitution and social reforms. Two different types of bourgeoisie then, the traditional and the modernising, are constantly in conflict and competition over the levers of socio-political powers.

The nationalist state, governed by a populist regime, may be able to arbitrate the conflict, as long as it does not disturb the uneasy coexistence of the two major interest groups; that is, the traditional power base and the national bourgeoisie in complicity with the organised urban workers. The insertion of a third partner in the political power play, namely, the rural workers on the latifundia, challenges the power base of the traditional oligarchs and destabilises *populismo*. As long as the populist state bureaucracy restricts its social reforms to higher urban wages and to other benefits under syndicalist pressure canalised by disciplined trade unions, the traditional elite may grumble but they will not enter into outright opposition. When the populist state embarks on *reforma agraria* and on syndicalisation of the rural wage earners, however, the owners of the latifundia cross the Rubicon. They will call in the military to stop these 'socialist' initiatives. In a well documented study, Cardoso and his Chilean colleague Faletto formulated what constitutes, in my view, the most original and empirically supported analysis of dependency. Later writers were much more mechanical and dogmatic in their treatment of this complex phenomenon.

Cardoso and Faletto did not fall into the trap of the ideological or meta-theoretical commitment that rendered much of the marxist development analysis so sterile. In contrast to the marxist theories on imperialism, Cardoso and Faletto recognised a certain margin of autonomy of action for the local bourgeoisie. And they perceived the state as arbitrator between the conflicting parties. In Brazilian tradition, the military has historically been perceived as the *poder moderador*, or the arbitrator of social and national conflicts. In this huge and heterogeneous state, the historical role of the military consisted in keeping the nation together.

In Cardoso's analysis the dependent bourgeoisie, as well as their economies and states, are not the imperialist puppets of marxist theory. The following citation illustrates his subtle stand on the cross-fertilisation between external and internal determinants :

The concept of dependence tries to give a meaning to a series of events and situations that occur together, and to make empirical situations understandable in terms of the way external and internal components are linked. In this approach the external is also expressed as a particular type of relation between social groups and classes within underdeveloped nations. For this reason it is worth focusing the analysis of dependence on its internal manifestations.

Proceeding on the basis of this methodology, Cardoso and Faletto provided one of the first socio-political analyses of class formation, as well as of the delicate balance or imbalance in the evolving class alliance during the ultimate phase of populism. This alliance between the middle sector and the industrial and urban wage earners on one side, and the oligarchies of the agro-mining export base and transnational industry on the other side, degenerated into a class struggle. The ideology and the interests that had linked these competitive components in a temporary alliance was endangered when populism radicalised. This crisis occurred when populism set out to emancipate, socially and politically, the mass of rural workers from the latifundia.

Moreover, by the time the dependencia theorists had formulated their theses, the industrial steam of import substitution had already exhausted itself. The fight of late populism against the opening of the economy to transnational business proved to be a lost battle. The state bureaucracy and its planners, who, on the basis of ECLA-doctrine, had evolved into a technocratic intelligentsia above class interests, were aware of the nationalist impasse and sided with the military. Their conversion to multinational development convinced the national bourgeoisie and prepared its association with the authoritarian state. In this conservative counterrevolution the urban and rural syndicalist movements were abolished. The technocrats, the national industrialists, and the incorporated transnational sector formed a new alliance.

A few years later Cardoso reformulated his theory to take account of the new situation. He referred to the new context as *associated dependent development*<sup>57</sup>. In this revised version he acknowledged the positive aspects of the smooth absorption of technologies offered by the multinational firms, who in the authoritarian state of Brazil could count on stability. However, he remained a severe critic of the system's social repression and of its undemocratic rule. As the authoritarian alliance spread to other countries of the continent, it triggered an acute controversy. Various dependency theories evolved in which different aspects of this complex process were analysed. The most noted authors are O. Sunkel, C. Furtado, H. Jaguaribe, A. Ferera and A. Pinto<sup>58</sup>. In an ironical metaphor, the Chilean publicist A. Pinto refers to dependency as 'a case of frustrated development' (*un caso de desarrollo frustrado*).

In our survey we cannot dwell on the interesting thematisations and the petulant debates of these Latin American intellectuals. In contrast to the theorists of the modernisation school, the prime movers of dependency were dedicated nationalists and social democrats, personally involved in the struggle for a more socially balanced development policy. They were insiders who had an eye for the social plight of the forgotten and marginalised classes, that is, for the *los olvidados*. Finally, they were reformists who shied away from the marxist understanding of exploitation and its revolutionary strategy.

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<sup>57</sup> F. Cardoso, *As Ideias em Seu Lugar*, São Paulo, 1980.

<sup>58</sup> C. Furtado, *Subdesenvolvimento y Estagnación da America Latina*, Rio de Janeiro, 1966; O. Sunkel & P. Pay, *El Subdesarrollo Latinoamericano y la Teoria del Desarrollo*, Mexico, 1970.



## 2. The Neomarxist Theories

Indeed, the marxist writers tended to take a more mechanical stance. They proclaimed that the capitalist way of development, accompanied by transnational influences, resulted in exploitation and in complete subordination of the satellites to the metropolises. Marx himself, though, had recognised the positive role of capitalism in the development of productive capacity. Real socialism could only thrive when capitalism had exhausted all its benefits, including the benefits resulting from the multinational firms. Had he lived, he would have called his disciples of the postwar period radical 'bastards'. The major distinction between the Neomarxists and orthodox Communists was that the former refused centralised planning and an undemocratic society. In their view, a nationalist revolution supported by the proletariat and a radical delinking from international exploitation would open a new era. The most representative group of authors in the marxist dependency camp were R. Marini, T. Dos Santos, A. Frank, O. Braun and A. Quizano<sup>59</sup>.

At the time when the dependency theorists published their first treatises, a North American economist of the New Left, Andre Gunder Frank, was working in the field. He absorbed the radical dependency thesis, disseminating it in the English speaking world under the new name of 'the development of the underdevelopment school'. On the basis of a proclaimed transfer of financial surplus from the periphery to the centre, development thought of the North American New Left became 'dependent' on theory formation in the periphery. Rebellious youth, frustrated by the quagmire in Vietnam and by the militarisation of thinking in the leading academic and policy making circles of the US, were in need of a critical stance on Third World politics and economics. Frank's reformulation of the dependency thesis, in cross-fertilisation with treatises on imperialism, launched the idea that the domination of the metropolis resulted in a process of 'increasing underdevelopment' in the subordinated periphery. Given the social sterility and economic satellite status of the bourgeoisie (*Lumpenbourgeoisie*) in the periphery, it was perceived as the greedy assistant of the metropolis in the exploitation of the masses.

However, the pioneer of marxist thought on development was not Frank, but P. Baran with his study *The Political Economy of Growth*, published in 1957. Baran's work reintroduced the theoretical line of thought on imperialism and monopoly capitalism initiated at the beginning of the twentieth century by Lenin, R. Hilferding and Rosa Luxemburg. Stalin had sterilised all intellectual debate in his empire, but after his death marxists sailed out of the backwaters onto the open sea of First World versus Third World dynamics. This was not an easy task as several of Marx's premises led them astray. Although Marx condemned the dark side of capitalism, his economic appreciation of the creative bourgeoisie had been rather positive. The capitalist way of production had broken with the feudal system and had generated a new class, the proletariat. It was this new force in history that was to pave the way toward a social revolution.

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<sup>59</sup> A. Frank, *Capitalism and Underdevelopment*, New York, 1969.

Marx regarded capitalism and its creation of surplus value as a necessary step in the historical chain of capital accumulation and of proletariat class formation. Through internal contradictions, capitalist accumulation itself was to generate the revolution. In the view of Lenin and Hilferding, capitalism had been able to survive only by imperialist exploitation. By the exploitation of the external proletariat, and by international reorganisation under the form of monopoly creation and social reform at home, capitalism had improved its functioning and prolonged its survival.

On account of the appropriation of surplus value in the empire, the metropolises had more leeway for social reform at home. In the centre of capitalism, the nascent Welfare State had cooled off the revolutionary consciousness of the proletariat. In the new states, however, the exploitation resulted in an arrested or lopsided development. The villain of the piece was the drain of surplus value from the periphery to the centre. In the postwar marxist revival, the looting of the colonies was condemned *ad nauseam* in an almost unlimited supply of dogmatic studies with only slender empirical support. Baran himself concentrated on the case of India ; Samir Amin focused on Africa<sup>60</sup>. A phalanx of analysts took the misdevelopment of Latin America to test. The seventeenth century thesis of the Spanish *arbitristas* (pamphleteers), that Spain had exhausted itself by over-extensive political colonisation, was completely ignored<sup>61</sup>.

In an outburst of partisan historicism, the analyses alternated between the scholastic stances of the competing marxist and neomarxist sects. They invariably ended by proclaiming that in the peripheral countries, capitalist exploitation either rendered development impossible or that it evolved in total misdevelopment. The exploited societies had but few alternatives : they could cut the ties of exploitation by a proletarian revolution, or remain submissive to exploitation.

Many of the studies on imperialism, unequal exchange, metropolis-satellite relations, and on the manipulative conspiracies between the bourgeoisie of the centre and periphery, were abstract and dogmatic discussions. They referred more to marxist ideology and doctrine than to the concrete subject of development. The entry of new authors, such as E. Arghiri and P. Rey, on capitalism in the Third World, and the re-interpretation of Marx by L. Althusser and N. Poulantzas, produced a high tide of polemics between marxists<sup>62</sup>. Due to the never ending quarrels about 'the Asian production cycle' and about 'what Marx would say about external exploitation by capitalists if he lived now', the practical problems of the Third World were neglected. The discussion on the nature and the impact of the relation between the metropolis and satellite filled thousands of pages. The vivid polemic between the priority of the production aspect, or 'productionism', and the importance of

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<sup>60</sup> S. Amin, *Unequal Development*, New York, 1976.

<sup>61</sup> For thematisation on the sixteenth and seventeenth century Spanish *arbitristas*, and their theory that the over-extended system of political colonisation had 'exhausted' Spain, while the more developed parts of Europe, like Flanders, Holland and Northern Italy, profited, see L. Baeck, 'Spanish Economic Thought : The School of Salamanca and the Arbitristas', in *History of Political Economy*, n° 3, 1988.

<sup>62</sup> E. Arghiri, *Unequal Exchange*, New York, 1972.

exchange relations, or 'circulationism', kept the marxist authors busy.

After a brief spell of success, the marxist Third World school reached an impasse due to an internal division resulting from the sterile in-fighting of factions. In the seventies and eighties, a group of semi-industrialised countries achieved high growth rates after their insertion in the transnational industrial circuit. Their authoritarian regimes were enthusiastic about the growth in the productive capacity of their economies. The social imbalances were regarded as unavoidable accompaniments to this stage of growth. The so-called economic miracle of Brazil was proof that the system of 'associated dependency' was capable of generating exuberant economic growth. The marxist *crisis syndrome* thus lost its appeal.

In the seventies, neomarxist theorising on development provoked a split between the approach that privileged exchange relations between the centre and periphery, and the approach that emphasised the ordering of the production structure on a world scale. According to the latter view, in a world economy where capital has become international, the production structure of the periphery can only be a subordinate component whose functioning and situation is determined by, and derives from, the new international division of labour. This 'world system view' argues that the new division of labour is completely determined by the *logic of capital*, that is, that capital flows where it obtains the highest return.

The 'world system' approach, first formulated by Immanuel Wallerstein<sup>63</sup>, constructed a more complete model of dependency than the sociological constructs of the early *dependencia* theoreticians and the 'unequal exchange' school of Samir Amin. But it reduced the peripheral states and their governments to entirely subordinate agencies which respond almost automatically to the requirements of, and to the changes in, the logic of the international economy. Reacting against this reductionism, Latin American development theorising of the seventies reintroduced the state as a 'third partner' in the development context. This position holds that the state is to act as a catalyst between the multinational firms and the local (industrial) bourgeoisie<sup>64</sup>.

By way of conclusion, let us mention two remarkable facts :

- a. The marxist Third World debate, with its focus on the effects of monopoly capitalism and imperialist exploitation, was an intellectual construct of Western marxists, with the exception of S. Amin. The marxist intellectuals of Eastern Europe and of the Soviet Union showed no interest. The Western marxists, though, were silent about the exploitation of the Asiatic federated republics by the core republics in the Soviet Union. While the Azeris, Armenians and others could illustrate a strong case of exploitation by the Russian centre, this was never mentioned.

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<sup>63</sup> I. Wallerstein, *The Capitalist World Economy*, Cambridge, 1979.

<sup>64</sup> This will be analysed in more detail in chapter IX.

- b. All of the African countries that de-linked from the West after communist revolutions experienced the scenario outlined by marxist writers for cases of capitalist insertion, namely, *the development of underdevelopment*. In countries like Ethiopia, a series of famines underlined the dismal results of the metropolis-satellite relation, in this case with the Soviet Union as partner. In Afghanistan, the chaos was even worse.

Since the marxist theorists were insulated from the arcades of power, and as only a few intellectuals read their indigest prose, their influence was marginal both in the West and in the periphery. The most spectacular revolution of delinking from capitalism by the end of the seventies occurred in Iran. This was not the work of the marxists though. It was a revolution in the name of God, something unheard of since the Enlightenment. This was a clear sign that the moral base was a new force in development. The disenchantment with modernisation, impelled by capitalism, socialism and secularism, generated a revival of the pre-Enlightenment forces in history. The most powerful monarch of the Middle East was toppled from his throne by an exiled cleric ; but he was a charismatic ayatollah supported by the common people. A few years later, the Brazilian military regime resigned under popular pressure and others followed. By the mid-eighties the authoritarian states had past their peak. A new era opened, during which the Soviet Union and its satellites would delink from communism as well.

## CHAPTER VII : ASIAN THIRD WORLDISM

By the end of the forties, the Asian countries with the greatest populations, like China, India, Pakistan and Indonesia, had won their political freedom and were independent. National elites with outspoken views on future development had taken over the reins of power. Indonesia was the first liberated colony and set a new course, inspired by *pancha-sila*, or the five principles of development. Under the leadership of Soekarno, these formed a mixture of populism and of socio-cultural authenticity. In India, Nehru's Congress Party initiated programs oriented toward economic self-reliance and democratic socialism. In China, the communist party and its People's Army, after a period of seclusion and experience in the Yen-an hide-out, fought a victorious war of liberation against both the Japanese occupation forces and the bourgeois nationalist party *Kuomintang*. In Pakistan, the new rulers adopted an assertive Islamic policy, which ultimately caused the separation of its Bengali population, under the name of Bangladesh. The basic characteristic common to these new Asian nations was that their development ideas and plans owed nothing to the Western and Latin American debates reviewed above. The four regimes worked out their own blueprints and strategies in which not only economic growth objectives, but also their respective ideologies, cultural preferences and political matrices were wrought in an original synthesis.

After the murder of Gandhi, Jawaharlal Nehru, a Brahmin with Western education, played the decisive role in India. It was he who converted the Congress Party from a rural-oriented Gandhian idealism to the idea of socialist planning. It was, however, an Indian brand of democratic socialism. While it took inspiration from Russia in planning techniques, it was too much inclined toward ideas of human liberty to take over the Soviet model of society. Indian socialism allied the nationalist desire of self-reliance with an outspoken egalitarian creed propagated by its left wing. It was an ideological attack against the culturally determined inequality of a caste society. Indian socialism also wrought a clean break with the principles of *laissez-faire* economics and its price mechanism. These were perceived as the discredited tools and ideas of the British colonisers.

The rapid building up of heavy and capital-intensive industries, steered and stimulated by state planning, was taken for granted. Indian planners and economists did not lose much time on professional pleas for balanced growth or on statistical inquiries concerning income elasticities. Self-reliance was the propelling idea and as such the freedom from dependence did not need subtle legitimising. In economic terms it meant independence from the First and the Second Worlds<sup>65</sup>. Thus, import substitution was the logical path to follow.

The Planning Commission was led by P. Mahalanobis, a first-rate economist with an international reputation, and was supported by an able staff. Mahalanobis elaborated a

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<sup>65</sup> A. Appadorai, *Domestic Roots of India's Foreign Policy, 1947-1972*, Delhi, 1984.

famous 'two sector' model of growth in his technical approach, largely under the influence of Russian planners. He was also influential in the option for early spurts toward the expansion of heavy industries. The Mahalanobis-group undertook some detailed studies related to the external exchange or balance of payment constraint, imposed by speedy import substitution. Their theoretical model states that in a developing economy, insufficient national savings are not the only determinant that may put a ceiling on investment growth. Insufficient earnings of foreign exchange, resulting from inelasticity in export growth, form a second constraint, externally imposed by the limited foreign demand for Indian produce. Thus, a deliberate and important spurt in the capital goods industry requires one of two solutions, or the combination of both: more imports of machinery and/or more imports of the non-ferro and other metals to construct a capital goods industry by local engineering.

The growing import gap has to be filled up by external financial funds from multinationals, or by foreign aid. However, this would contradict the outspoken desire for economic self-reliance. The highly esteemed stance of ideological non-alignment of the Indian regime in world affairs functioned as a political ceiling. Allowing that Nehru, and with him the whole Indian political establishment, chose a diplomacy of self-reliance, the Planning Commission had to muddle through the exchange constraint, and through its imposed bottle-necks in national industrialisation. This so-called 'two-gap' constraint model was a theoretical forerunner. In later debates on the economics of foreign financial aid, the Indian ancestor would beget many variants of this 'two-gap' construct. At the time of the deliberate swing to the expansion of heavy industries, the Planning Commission was not overly deterred by two-gap pessimism. India went its nationalist way<sup>66</sup>. Evidently, ideology and politics play a more important role in the strategy of development than most economists realise. This was still more the case in China.

Chinese history is a long tale of empire building moved by a high culture, a central bureaucracy run by mandarins, and a peasant population which has steadily increased throughout the ages. In the nineteenth century, weak emperors and a tired oligarchy rendered China an economic prey to Western penetration and spoliation. After World War I, several groups of young intellectuals could not bear the shame and so formulated plans for reform. Sun Yat-Sen's reform plan outlined a blueprint for development<sup>67</sup>. Cultural clubs, social groups, warrior bands and political parties, each with different ideological inspiration and aims, joined the chorus. In the evolving competition for a power base, the different groups rivalled in the search for support from the urban and, in a minor degree, from the rural masses.

At the end of World War II, when the Japanese occupation forces had been driven out, the Communist Party and the *Kuomintang* began a civil war for the monopolisation of power. Mao Zedong and the People's Army carried the day. The communist party replaced the

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<sup>66</sup> J. Bhagwati and P. Desai, *India : Planning for Industrialization*, London, 1970.

<sup>67</sup> Sun Yat-Sen, *The International Development of China*, New York, 1922.

mandarin bureaucracy and acclaimed Mao as the red emperor of the new republic. With this extraordinary figure as helmsman, China underwent one of the most fascinating and problematic development stories. Mao's chief contribution to early development theory and practice is the inspiration and animation of an ongoing, peasant-based revolution. In this process he explored and tested the dialectical advance and retreat of agrarian communism in its evolving phases<sup>68</sup>.

Over the centuries, population pressure in China had functioned as the driving force in the progressive incorporation of virgin land, though with only minor effects on the intensification of cultivation techniques. At the time when the communists took over, the inadequacy of this process was largely recognised. From the outset, the new regime was conscious of the fact that in order to achieve a semblance of self-reliance, a radical spurt forward was required. In the view of the new rulers rapid industrialisation would take the lead, accompanied by a substantial rise in farm yields. Given the size of the population, the infant urban industries would be unable to alleviate the plight of the peasant masses on the basis of rural exodus and labour absorption. Thus, to solely emphasise rapid industrialisation, as advised by the Soviet godfathers, would not solve the agrarian problem. A concomitant strategy that would induce substantial rises in the farm yields was also necessary. The authoritarian tradition of Soviet communism tempted the new rulers to replace the age old central bureaucracy by marxist bureaucrats. They would run a commando economy, supported by planned impulses from the top to bottom. Soviet advisers strongly pushed in this direction. They started to implement plans for the expansion of the heavy sectors of industry and for the collectivisation of agriculture.

Half a century before, the Japanese experience had followed another route, adapted to a densely populated country. The Japanese had chosen for speedy industrialisation, accompanied by various stimuli for agricultural improvement. This successful story initiated the opening of rural markets, the organisation of local credit facilities and extension services, and last but not least, a reform of the feudal land tenure systems. All this had functioned as a prerequisite for industrialisation.

Mao, like any marxist, viewed industrialisation as the evident vehicle to achieve self-reliance and as an historical leverage toward proletarian consciousness. In China, however, the locomotive of the industrial enclaves, even at full steam, would not be able to put in motion the massive train of peasants. As a Chinese communist, Mao was convinced that a radical reform of the peasant economy was a must. For the inspiration and the implementation of a global revolution, Mao profiled himself as the right man at the right place. With messianic passion, and supported by masterly led campaigns rife with ideas, metaphors and slogans, he swept aside political rivals to slay the dragon of the incipient bureaucratic command establishment. The bureaucrats went in opposition against his proposed mobilisation of the peasant masses, but supported the idea of central planning for industrialisation. In his industrial strategy Mao opted for five priority sectors, adapted to

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<sup>68</sup> C. Riskin, *China's Political Economy*, Oxford, 1987.

the needs of the country : cement, chemical fertiliser, heavy machinery and other capital goods, power plants, and iron and steel. In the organisational set-up he went his own way.

Maoism will be remembered for the novelty of its agrarian communism, which was based on the following elements : labour-intensive cultivation and irrigation methods, new modern inputs and the radical change of rural socio-economic institutions. After a relatively short flirt with the Soviet model of planning and collectivisation, Mao dropped 'the Soviet Union is our master' slogan. Inspired by his own creed, he made a leap forward. With a deep distrust of specialists, who were over-eager to form labour aristocracies, he preferred militant workers and peasants who professed to be 'red and expert'. His innate sense of egalitarianism led him to seek faster routes in the direction of real communism. In these impulsive jumps, he operated against the argument that the material conditions and the mentality of China were not yet ripe for such moves. Mao's promethean concept of development, in which the role of ideas and attitudes, or passions more than interests, formed the gist of human action, led him to proclaim that 'by effort of mind and will, people were able to move mountains'. In his later years he rejected the ideas of centralised planning that would transform China into one large commanded workshop. Thus, he carried out several experiments in decentralisation, some of which failed. The hasty organisation of the rural people's communes (as a lever for a quick transition to real communism), and the propagation of small scale industries such as the famous backyard iron and steel factories at the village level, failed miserably. Famine came over the country and millions of people suffered from starvation. The impulsive program was cancelled by the right wing of the party leadership. Mao was temporarily pushed into a minority position and remained quiet for a while.

The rejoicing of the victorious conservative or pragmatist leadership was of short duration though. With his famous promethean *élan*, Mao organised a comeback with the aid of the People's Army and of the revolutionary youth. These two groups had felt betrayed by the pragmatism of the revisionist party line. By a direct assault on party headquarters, local bosses, profiteers and other so-called 'enemies the people', Mao engineered a cultural revolution that caused an ideological watershed. In the wake of exuberant mass demonstrations which did not shy away from demagoguery and violence, the conservative leaders were swept away. Those who had reviled Caesar, but were deemed indispensable, were able to save themselves by praising him in publicly organised confessions. At the zenith of the cultural revolution Mao became not only the uncontested godfather of the nation, but also its idol. In his direct appeal to the masses, Mao, like other charismatic leaders, had overstepped the intermediary bureaucratic machinery. He engineered a radical movement of decentralisation and conscientisation. Ultimately, this deteriorated into a personality cult. For a while, the radicals were in power. In the following period of late Maoism though, agrarian communism had passed the crest and a new spurt in industrialisation required more complex technologies. The late sixties marked the end of the early postwar period, for China as well. The victory of the Hanoy regime in Vietnam set in motion a *détente* with the West. It was agreed that it would be a positive step to



open the door to Western technology. As such, a new power base was in the making, with another development strategy.

Deng Xiaoping's regime, which took the reins of power after intermittent power struggles between different ideological wings in the party leadership, vilified the radical initiatives of Maoism, such as the Great Leap Forward and the Cultural Revolution that followed. The revisionists pictured Maoism as a product of an 'adventurous' and 'utopian' ideology. This chorus received a resounding echo in the West. With the hindsight of the repressive bloodbath perpetrated by the gerontocrat Deng Xiaoping at Tien Anmen Square in 1989, the image destruction of Maoism emerged under a new light both in specialist and public opinion.

Maoism has been an extreme case of the politicisation of economic decision-making, of nation-building and of society construction. The party which invested the state completely was the 'red' brigade of mobilisation. Mao's herculean enterprise will be remembered for its ideological inspiration and for the permanent mobilisation of energies at the grassroots level. His idealistic views of society and of human nature in general were occasionally at odds with the specific requirements of conventional wisdom and of more conservative state marxism. His decentralised approach, animated by the slogan 'get going with local methods', clashed with the central commando line of the party. However, the peasant masses and the progressive industrial proletariat responded to his appeals and gave him a solid power base to carry out his projects. But Mao proved also to be a cold blooded revolutionary who did not shy away from intrigue and physical elimination of rivals and opponents.

In the peripheral, backward economies of Asia, and in China still more than in India, the state has been the central agent in the total re-ordering of national self-reliance. Industrialisation and import substitution formed the basic strategy. In China, the party commanded the state to take over the job. In the field of industrialisation theory, Mao, with his dogma of all but absolute self-reliance, inversed the conventional perception of the linkage effects. In the perception of the Austrian School, modernised by F. von Hayek, the evolution of the consumer goods sector gives the signals for sectoral growth in the capital goods sector. Von Hayek acknowledges that, at times, the signals given by the market mechanisms have resulted in overreaction in the investment sector, resulting in the well-known business cycles. The models of balanced growth strive to correct this by adequate planning, but the finished goods sector is still conceived to be the pilot.

Mao and his staff, conversely, began with the novel view that the enlarged capacity of the capital goods sector determines the potential rate of expansion of the consumer goods sector. This 'forward' linking was enforced by Mao. Mahalanobis, the Indian specialist in planning, would likewise formalise this forward chain of causation in his famous two-sector model of growth. Further, they both recognised that capacities are not directly transferable from one sector to another; there are delays and imbalances that must be taken

into account. The originality of Mao lay not primarily in the economic rationale of this causation, but in its novel organisational implementation. Indeed, the Soviet planner Feldman had formulated the theoretical foundations decades before. Mao, though, paid more attention to the socio-political complexities of self-reliant industrialisation and of the particular accumulation cycle than others. In a peripheral, backward economy, with more than half a billion peasants, this was the correct view. He realised that the brunt of capital accumulation had to be borne by state appropriation of the surplus value, created by the industrial proletariat and by the rural population. His egalitarian creed rebutted the possibility that during the transformation process, labour aristocracies and bureaucratic spoils might engender a class conflict between a privileged minority and a deprived underclass. He was also aware that the sectoral imbalance of his industrialisation model required an institutional correction of the central planning idea. Without this, the centralising approach would inevitably lead to a completely commanded economy.

To meet this problem Mao initiated the institutional innovation of 'walking on two legs'. In this system the capital goods sector was centrally planned, whereas the derived consumption goods industry was given a larger margin of manoeuvre and local initiative. Mao's originality lay in organisational innovation intended to overcome the problems of over-centralisation by the state planners. The building up of quasi-autonomous agencies and localities, with the power to allocate resources and to distribute income in the industrial production of mass consumption goods, was his organisational novelty. At times this created economic imbalances that irritated the central planning team. However, the local correction of social conflicts by decentralisation functioned as a political buffer mechanism. Social conflicts are inevitably engendered by all models of capital accumulation based on the limitation of consumption. Mao Zedong softened the plight by socio-political innovations.

On the basis of his experience as a partisan leader of the heroic Long March, this messianic leader and ideological prophet had formed a military conception of development. Like an army, the mobilisation of material and human resources has to march great distances swiftly, without consideration of the toil involved, followed by a rest to regenerate forces for the following march. Development is by nature unbalanced. The mobilisation of human energy and will is the ideal and only response. Mao aroused the mass of the peasantry to action. The peasantry responded with herculean efforts. By more intensive cultivation methods, that is, by deep ploughing and irrigation, and by more productive inputs, they realised remarkable increases in farm yields. But near the end of his life Mao had lost contact with reality and left his country embroiled in a disastrous power struggle. His strategy that had combined industrialisation with agrarian communism had past its peak. A new development phase opened for China. As the required inputs of technology could not be delivered on the basis of self-reliance, the gradual opening to the West seemed the shortest way. Deng Xiaoping inaugurated this new course.

## CHAPTER VIII : EDUCATION AS A DIFFUSER OF MODERNISATION

At the beginning of the 1960s, development economists discovered educated human capital as a determinant factor of production, and thus of economic growth. The emphasis put on the surplus value created by technical know-how, and on the rise in organisational and professional capacities as the result of a modern education, produced a theoretical shift in development theory. The new vision stressed investment in people, not only in the physical resource base. It was called the human capital school. A series of studies published by various economists, such as F. Harbison, C. Meyers, J. Tinbergen, H. Correa, T. Schultz, E. Denison, E. Blaug and others, enriched development theory with the idea of the planned expansion of education<sup>69</sup>.

The central thesis of the human capital school was that an educated labour force was more apt to contribute to the enlargement of the material resource base on account of its organisational capacity. Due to the lack of a sufficient number of modern educated locals in the LDCs, the marginal productivity of investment in education was extremely high in the first phases. Gradual replacement of the expatriate specialists and professionals by trained local people, though, would render the goal of self-reliance more solid.

The economic branch of the human capital school concentrated on the measurement of the investment funds required for a rapid building up of a modern school system, from the level of basic education to university schooling. The then conventional input-output models for manpower blossomed. The socio-politically inclined theorists of the human capital department, however, opened up new research lines. In their view modern education was not only an economic asset. The effects of education on nation-building in pluri-cultural societies creates greater social mobility for the educated, as against more traditional, elites. Thus it leads to the diffusion of new sets of values.

The staff of UNESCO, the specialised United Nation Organisation in Education and Culture, organised colloquia and workshops all over the world. It played an important role both in spreading the new idea and in its technical implementation. This organisation developed programs for the schooling of youth and also strongly advocated adult education. The campaigns for the functional literacy of the adult labour force had a direct and considerable effect on average productivity.

In the early postwar period, modern education played a very important role in the processes of individual and group mobility. It was often the decisive factor in the allocation of many elite roles and functions. Public agencies and private institutions, such as economic firms, tended to place a relatively high premium on the possession of advanced educational qualifications. In the new states, all well-paid and all prestigious

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<sup>69</sup> Le Than Koi, *L'industrie de l'enseignement*, Paris, 1967 ; G. Bereday, *Essays on World Education*, London, 1969.

functions went to the happy few with a solid, modern education. Thus, it conferred not only an economic premium on the diploma owners, but also social prestige. Education evolved as the status conferring institution *par excellence*.

During the course of the seventies the economic analysis of education faded into the background, and the extraordinary push of social demand in favour of school expansion took the lead. A brief reference to the specific social dynamics of education may help to explain the generalised over-expansion of education that followed. After the replacement of expatriates, and after the initial absolute shortage of educated manpower, a relative slow-down in the absorption of educated people by agencies and firms set in.

Social demand, however, was a powerful lever for greater expansion of education. The ensuing combination of a declining absorptive capacity with an exuberant growth of the educational system and of its output, tended to raise the minimal educational qualifications associated with a given occupational level. The phenomenon is known as the educational 'upgrading' of functions. This situation tended to generate a rising social demand and pressure for the building of more secondary schools and universities. As the occupational premium of the lower levels of education declined rapidly, public pressure for more access to the higher levels mounted. The educational system was trapped by its own enthusiasm. The over-reaction to an initially correct estimation of the shortage of educated people created an over-supply.

A fact often neglected by radical and marxist writers is the emergence, and in time, the ascendancy of a new social class in the developing countries that bears no relation to the possession of land or capital. Rather, this privileged class is the result of an advanced modern education. Thus, amongst the bourgeoisie of the first generation, a considerable number of the ascending elite groups can be considered to be capitalists on account of 'educational' capital<sup>70</sup>.

Not everyone had the same opportunity to enter the school system. Initially, some groups withheld their children for religious reasons. Ethnic differences were also involved in the response to schooling ; and later, the urban-rural differential became a very important factor. Research demonstrated that not only capitalist development and industrialisation were responsible for the widening of the elite-mass gap, but that the rapid and unequal expansion of education had formed a powerful motor of inequality as well. Mao Zedong, who distrusted the mandarin mentality of the modern educated, rekindled the idea of the medieval, ascetic Cistercian monks. He initiated a curriculum revolution in which he combined study with labour. Like the monks, the young Chinese intellectuals had to work in rural and urban development : with their hands !

In many developing countries research revealed that the social demand for general education increased considerably faster than the demand for vocational training and

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<sup>70</sup> R. Clignet and P. Foster, *The Fortunate Few*, Evanston, 1966.

technical schooling. The ensuing differential expansion of the school system was more aligned with the better opportunities in terms of social mobility and the higher status conferred to diploma holders of general education, than with the occupational needs of a developing country. Simple curricula changes and other school incentives introduced to redress this lopsided social demand proved to be ineffective, as the roots of the different evaluation of the educational types originated in society.

School reformers attempting to reorient the school systems and curricula dealt with the results of the problem rather than with its source. Only the regimes characterised by intensive political mobilisation of the masses, supported by an egalitarian ideology like Maoism, took another course. In Tanzania, the populist leader Julius Nyerere instituted initiatives similar to those of Mao, but his ruralisation of education failed. School reforms, if well conceived and implemented, may improve the flow and allocation of students over the different sectors of general, technical and vocational education ; but they cannot influence the evolution of social demand. This evolves in accord with the aspirations and interests of the elites. Moreover, education is a most desired status symbol.

After two decades of vigorous expansion, the general education systems had become diploma mills in overdrive. This was also the case in the universities. The oversupply generated considerable intellectual unemployment, as well as disguised unemployment in the inflated public bureaucracies. With the exception of China, most developing countries copied the educational system and curricula of the West. Thus, in one of the most important transmission belts of social and cultural values, the ideology of self-reliance and import substitution was forgotten. Some countries paid lip-service to bridge the gap between the Western ideal type and their felt needs in terms of development. In the African university of Kinshasa, where I lectured in the early post-independence period, the Africanisation of the curriculum and of teaching methods became the subject matter of an intense debate, followed by the polite refusal of the students when it came time to implement the reforms. While they hotly accused the West of policies that intensified the dependency of the periphery, in education the African students opted for copies of the West, more so than the Western professors.

In my view, the spectacular expansion of formal education has been the most radical and efficient diffusion vehicle of modernisation and Westernisation of the transfer of knowledge process. As the educational system expanded on a world scale, the family and also local experience as the privileged socialisation milieus for youngsters were eclipsed. For the rural as well as the urban educated elite, the school became the only and determinant socialisation agency. The traditional knowledge of the parents was discredited in the Western educational system. The over-evaluation of book-knowledge, combined with the relative neglect of other avenues of personal and social formation such as the absorption of wisdom, the traditional ways of working in agriculture and in other sectors of life, had a destructive effect.

The formally uneducated were identified as ignorant people of no worth at all. With the expansion of education, a graduate of 'only' primary school was considered to be a person with a problematic future. The accumulated wisdom and knowledge of millions of peasants and other villagers, of great use in their social and natural environments, were devalued. The natives with experience were replaced by local and foreign agronomists and by extension workers with high degrees of schooling, but without any practical knowledge of the indigenous cultivation methods, of the traditional inputs and of soil reaction to innovations. Critical assessments of Western schooling methods as an agent of creative destruction in the rural world in development have been few but radical. After several years of study and experiment on the school system in rural Mexico, Ivan Illich published a book with the shocking message that 'the de-schooling of society' was the only solution. This was like throwing out the baby with the bathwater. A more gradual and adequate reform is needed<sup>71</sup>.

After three or four decades of intensive expansion and diploma inflation, the school systems and their graduates have lost some of their initial prestige. The educational system needs reform: first of all in its curricula, directed toward the achievement of higher norms in terms of internal efficiency; and secondly in its external efficiency. This latter element has to do with the basic needs of a society. A better cross-fertilisation between education and the socio-cultural fabric of society, with its specific development needs, requires a combination of bold imagination with the political will to implement the blueprints of reform.

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<sup>71</sup> G. Psacharopoulos and M. Woodhall, *Education for Development*, World Bank, Washington, 1988.

## CHAPTER IX : EXPORT ORIENTED INDUSTRIALISATION IN THE NICs

### 1. The new international division of labour

Viewed from the vantage point of the history of economic thought, the Mercantilists were the first to theorise on the impact of foreign trade on development. For them, the policies leading to a positive balance in foreign trade were strategic devices to generate an inflow of bullion. This inflow of specie would not only 'quicken' trade and manufacturing, it would also produce a positive effect on employment. In a series of remarkable economic essays, Hume, a well-known Scottish Enlightenment scholar and friend of Adam Smith, questioned these nationalist strategies<sup>72</sup>. In a more cosmopolitan vein than the Mercantilists, he demonstrated the logical impossibility of every nation realising a surplus in its balance of foreign trade. On a world scale, the export surpluses have to be compensated by import deficits and vice versa. According to his famous specie flow mechanism, coupled to its effect on the movement of internal prices, the external imbalances would flatten out in due course.

For our discourse, however, Hume's lesser known thesis on the migration of economic opportunities is more relevant still. In his view, the long term dynamics of development 'make it appear unlikely that a leading trading nation will be able to preserve for ever its commanding position'. Indeed, the international unfolding of the more advanced nations opens up opportunities for economic growth elsewhere. Looking at the educational role of foreign trade, Hume emphasised its demonstration effect on the less advanced nations. Foreign trade acquaints them with 'the pleasures and luxuries' of imported goods. Imitation soon diffuses the imported luxuries and the art of manufacturing. In due course, the domestic manufacturers begin to emulate the industries of the leading nations. Moreover, once a country has grown prosperous, 'its price level may compare unfavourably with the low price of labour in other nations which have not yet an extensive commerce'. This disparity of labour costs and of the level of prices in general sets the stage for a diffusion of economic opportunities. This may cause stagnation in the advanced nations and expansion amongst the latecomers. According to Hume :

‘manufacturers gradually shift their places, leaving these countries and provinces which they have already enriched and flying to others, whither they are allured by the cheapness of provisions and labour ; till they have enriched these also, and are again banished by the same causes’.

Hume's ideas on the migration of economic opportunities underwent a revival in the development discourse of the seventies. An increasing number of multinational firms were unfolding the manufacturing industries toward a select group of developing nations ; more particularly, to those who welcomed these firms with market-friendly policies and

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<sup>72</sup> D. Hume, *Writings on Economics*, edited by E. Rotwein, Madison, 1955.

regulations. While the schemes of dependency and neomarxism advocated delinking, a whole spate of neoliberal economists argued for the integration of the industrial base at the global level. Export oriented industrialisation was hailed as the felicitous successor of import substitution. The most outspoken neoliberal export orienters were Bela Balassa, Anne Krueger, Ian Little, D. Lal, H. Myint and, last but not least, some leading staff members of the World Bank. By the second half of the seventies the ideological climate had changed. In the economic profession as well, a paradigm shift occurred that contested the benefit of state intervention. The glamour of Keynesianism had paled and was overshadowed by the rise of two new theoretical markers : monetarism and *supply side* economics. In the new market-friendly atmosphere, the pessimism of the earlier generation with reference to the development capacity of international trade faded. The pessimism was replaced with an almost unbounded enthusiasm for the internationalisation of the economy. The new strategy consisted in the globalisation of industrial production, even if this entailed the de-domiciling of capacity and de-industrialisation in the core countries. The more advanced countries were encouraged to move into knowledge-intensive service industries.

The most important change in the investment pattern of the seventies was the transnational spread of manufacturing industries and of private capital impelled by an outburst of direct investment. This new international division of labour can be characterised as follows :

- a. Growing internationalisation of capital, as technological developments increasingly make possible an inter-linked but dispersed network of a firm's productive operations in different parts of the globe.
- b. A climate of liberalisation and deregulation, that is, a decolonisation of the markets.
- c. The introduction of innovative techniques and new modes of financial intermediation, concomitant with an intensive internationalisation of the financial markets. The strategy of the external growth of firms on the basis of fusion and acquisition becomes fashionable.
- d. Creation in several Third World countries of 'free industrial zones' or 'free trade assembly zones', offering multinational capital not only cheap labour but also a variety of other fiscal and legal advantages. Mexico's *maquiladoras* located in the border zone with the United States are an example.
- e. Emergence of a number of newly industrialising countries. The NICs rapidly managed to shift their exports from mineral and agricultural primary products to manufactured goods. Stable political regimes, low wages and flexible labour markets induced the countries of the centre to locate a part of their activities in the NICs by a novel network of production and management.

Changes of this dimension elicit new interpretative schemes and avenues of enquiry. The mainstream version on the new international division of labour emphasised the spatial reorganisation and relocation of industrial production on the basis of market opportunities



and lower labour costs. The older formula theorised by Ricardo favoured the specialisation of nation states in a particular product, like wine for Portugal and textiles for Britain. In the classical case, a small number of industrial countries were profiled to produce finished capital and consumer goods for the world market, in exchange for the primary products of the developing nations. In the new formula, a select number of countries in the periphery actively engage in the transformation of their industrial production structure. This transformation consists in a shift of emphasis : from labour-intensive industries to manufactures with higher added-value. The process of stepping-up the added-value sectors of the industrial structures in the NICs was activated by the multinational firms, who had initiated a transnational network in industrial assembly. This resulted in the subdivision of industrial manufacture into a multiple and world-wide diffusion of production locations.

With the fragmentation of industrial production over a multinational network, the interpretative scheme based on (national) comparative advantages, thematised by Hecksher-Ohlin Samuelson (HOS), needed to be revised. In Wallerstein's 'world-system' approach and in the study published by Fröbel, Heinrichs and Kreye, the logic of capital had pride of place<sup>73</sup>. For these authors, the strategies of the multinational firms to multiply the industrial sites in the NICs were a consequence of the diminishing rate of return on capital in the core countries, in comparison with perspectives of a more profitable rate in the promising markets of the periphery. This reductionist scheme, however, as well as the thesis of the lower labour costs, overlooks the multiplicity of factors leading to the spatial expansion of manufactures. In order to correct the picture it should be mentioned that in the most promising NICs, like South Korea, Taiwan, Brazil, Mexico and Venezuela, the state administrations in conjunction with the managers of domestic industry were long active partners in the realisation of the new international division of labour. In the text that follows we illustrate the role of the domestic partners in a novel synergy with the strategies of multinational firms.

## **2. The bureaucratic authoritarian state**

In his typology of the bureaucratic authoritarian states (BA-state) in Latin America, Guillermo O'Donnell emphasises the dominance of the political element in their development strategy and sketches the following profile<sup>74</sup>:

- a. Dominance of the bureaucrats : high government positions are occupied by persons after a successful career in the armed forces, in the public bureaucracy or in large private firms.
- b. Political exclusion : the BA-state closes the channels of political access to the popular sector and controls or forbids trade unions.
- c. De-politicisation : development strategies and problems are reduced to 'technical'

<sup>73</sup> F. Fröbel, J. Heinrichs and O. Kreye, *The International Division of Labour*, Cambridge, 1980.

<sup>74</sup> G. O'Donnell, 'Reflections on the Pattern of Change in the Bureaucratic Authoritarian State', in *Latin American Review*, n° 8, 1978.

ones that can be solved by rational indicative planning of state officials.

- d. Economic exclusion : the BA-state appropriates the surplus value of the working classes for accumulation ; a more favourable regime for the educated middle and upper classes.

Against the world-system theory formulated by I. Wallerstein, which depicts all peripheral states as passive puppets of international capital, some dependency authors, like T. Evers, acknowledge the relative autonomy of the state in Latin America<sup>75</sup>. The absence of a dominant and hegemonic local bourgeoisie results in the state acquiring a growing role, not only in providing infrastructure, but also in the industrial production of the high profit sectors. In this context, the state competes with local as well as with international capital.

The authoritarian capitalism of the NICs is different from its Western ancestor in several respects; that is, from the free market system impulsed solely by private entrepreneurs. In the countries of authoritarian capitalism, the state attempts to play the hegemonic role of arbitration in a triple alliance between the local bourgeoisie, the managers of the state enterprises and the representatives of transnational capital.

In his study on this 'triple alliance' in Brazil, P. Evans focused on the social bases of the state, rather than on public agencies and bureaucracies<sup>76</sup>. Evans does not employ terminology like power bloc, hegemony or even relative autonomy, in the sense of O'Donnell and Evers. Instead, he places a great emphasis on the contradictions between the strategies of the three partners. In his view the triple alliance is a temporary and fragile alliance. In spite of these contradictions, the three partners in the alliance were bound by the rules of the game of the post-1964 military regime. Indeed, the stagnation of the OECD-countries gave an impetus to transnational industrialisation, and the authoritarian regime kept average wages and inflation rates low. Capital accumulation went into overdrive and the Brazilian 'miracle' was hailed as a model for others.

In my study *Brazil a model ?*, I analysed the potential instability of the triple alliance in some detail, and found that the weakest link was the national bourgeoisie<sup>77</sup>. As long as the transnational firms incorporated new technology in the economy, and as long as the state bureaucracy served these firms by keeping wages low, the national bourgeoisie felt comfortable in the company of the two other partners of the alliance. Some sectors of the local bourgeoisie, however, did not like the increasing state power of the authoritarian regime. They preferred a less powerful government, like the weaker populist predecessor.

At the beginning of the eighties, when the import of transnational capital dwindled as a result of the debt crisis, and the popular sectors of society rebelled more openly for greater participation and re-democratisation, the local bourgeoisie sided with the people. The

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<sup>75</sup> T. Evers, *El Estado en la Periferia Capitalista*, Mexico, 1979.

<sup>76</sup> P. Evans, *Dependent Development : The Alliance of Multinational, State and Local Capital in Brazil*, Princeton, 1979 ; P. Evans, *Bringing the State Back In*, Princeton, 1980.

<sup>77</sup> L. Baeck, *Staat Brazilië Model ? (Is Brazil a model ?)*, Louvain, 1975.

national bourgeoisie left the now less beneficial alliance. In this process of *abertura* or re-democratisation, the Church and its affiliated grassroots development agencies played a more important role than the social democratic parties and trade unions inspired by the dependency theories. In my view, the solidarity of the triple alliance in Brazil eroded as a result of two factors : the drying up of transnational capital (debt crisis) that hurt the national bourgeoisie, and the rebellion of the 'moral' base. The Church campaigns of conscientisation of the common people had worked. The moral base helped topple the military regime.

### **3. East Asia**

If we compare the situation of Brazil, Mexico, Argentina and Chili with two major Southeast Asian countries, South Korea and Taiwan, the picture is rather different. Whereas the Latin American model rested on social control, low incomes for the masses and on distribution of the growth benefits in favour of the middle and upper classes, the Southeast Asian pattern was characterised by more egalitarian strategies. In South Korea and Taiwan, there are state bureaucracies that appear to be more capable of steering foreign, as well as indigenous, investments<sup>78</sup>. In their strategy, export oriented industrialisation is combined with a socially and sectorally more balanced development trajectory. The benefits of growth are more equally spread over the different social groups and between rural and urban centres. Despite the policy of low wages, these countries do not experience the same degree of social inequality and marginalisation that prevailed in Latin America.

In both South Korea and Taiwan, civil society is considerably weaker than in the above mentioned Latin American countries, where for decades reformist populist regimes preceded the authoritarian states. In my view, the geopolitical factor also plays an important role in the Southeast Asian cases. South Korea and Taiwan live in the vicinity of a powerful communist state with an outspoken egalitarian ideology. The state bureaucracy in both South Korea and Taiwan have been controlled by fiercely anti-Communist authoritarian elites. They view rapid growth of capacity as a development goal, but deem it necessary to proceed on a socially less exclusionary strategy. In a situation characterised by permanent challenge from their communist neighbours (China and Vietnam), the allegiance of the masses is an important development goal.

These two states of Southeast Asia managed to cope with the problems of rapid industrialisation in a more effective manner. They practised manpower planning to spread new skills; they promoted more egalitarian policies; and they adopted flexible and highly selective government devices for the protection of the infant industries. If we look at the historical evolution of the two countries, it becomes clear that their occupation by Japan has had a positive effect on the prerequisites for balanced growth. The Japanese occupation forces had weakened the power of the great land-owning classes. This opened

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<sup>78</sup> S.Brunet, *La Corée du Sud : l'Industrialisation Planifiée*, Paris, 1987.

the way for agrarian reform and for entrepreneurial agriculture on a family base. As a rule, economic publications tend to neglect the different socio-political aspects of export oriented development. The cases of Latin America and Southeast Asia indicate, though, that export oriented industrialisation (EOI) is intertwined with a specific socio-political matrix of government. We return to this later in the text.

#### **4. The post-ISI model**

The post-import substitution industrialisation model has the following economic characteristics :

- a. The state plays a key role in the development strategy, not to supplant but to complete the missing links.
- b. Direct foreign investment and absorption of new technology, by way of transnational terms, transforms and completes the industrial structure.
- c. The import substitution goal fades into the background and more emphasis is laid on expansion and diversification of industrial exports.
- d. Greater reliance is placed on the market mechanism, with emphasis on growth and efficiency rather than on equity.
- e. Fiscal incentives are applied to give impetus to capital accumulation; local capital markets are set up and a correct exchange rate policy prevents the negative effects of an overvalued currency. Devaluation is seen as a first step toward export oriented growth.

Apart from the above mentioned factors involved in the generalised turn toward export oriented industrialisation, let us again refer to the influence of the paradigm shift in the economics profession. With the decline of Keynesianism, the schools of *supply side* economics, public choice and monetarism competed to fill the gap<sup>79</sup>. Their ideology stands for a policy of *laissez-faire* economics, the primacy of the market mechanism, privatisation, minimal state intervention and a market-friendly socio-political context. In the developed countries of the North, the socio-political alliances which rode on the crest of neo-Keynesianism had steered their welfare states toward huge public deficits and to two-digit inflation. The counter-movement of monetarism and of supply side economics was a healthy reorientation toward sustainability in the long-run.

Influential staff members of the World Bank and more so of the International Monetary Fund, as well most neoclassical economists in the universities, defend EOI on predominantly ideological grounds, with a benign neglect of the social repercussions. The econometrist W. Tyler analysed a sample of 55 middle-income LDCs in the period of 1960-77, and found a positive and highly significant relationship between economic

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<sup>79</sup> R. Bates (ed.), *Toward a Political Economy of Development : A Rational Choice Perspective*, London, 1988.

growth and manufacturing output growth and exports<sup>80</sup>. These cross-sectional calculations can only illustrate the *association* between economic growth and industrial export. They are unable to prove that EOI stimulates export though. It may well be that it is the other way around. Econometric studies are limited in value since they ignore the effects of EOI on employment, income distribution, and external debt and its vulnerability. However, if we look back at the experience of the seventies and after, most observers will agree that the transnational model of EOI has proved its merits. Some NICs, like South Korea, Taiwan, Thailand and Malaysia, managed to achieve high growth rates without too great a social inequality. Several dependency theorists, and all marxist analysts, introduced a misconception due to their dogmatic concentration on the exploitative metropolis-satellite or centre-periphery relations. The post-ISI successes of several authoritarian NICs illustrate the common-sense stance that sound policy strategies and incentives neutralise the backwash effects of the open growth model.

In the neoclassical literature on EOI, all positive effects are derived from an outward-looking orientation to the international market mechanisms and incentives, as well as to the technological contribution of the transnational firms. The novelty of the strategy, however, is the fact that it worked best when the NIC-state was directed by an enlightened elite, as was the case with the dragons of East Asia. These were power elites willing and able to implement sound policies, which did not overly favour the upper classes but strived to achieve a more or less egalitarian pattern.

In my view, the EOI strategy owes less to the neoclassical international division of labour theory than to the strategy of neomercantilism. It is a synthesis of a policy of nation-building by authoritarian elites on the base of economic growth capacity with private managers. The best cases are those where the power elite realises that power has its limits and that the support of the social base is indispensable in the medium-term. Some countries, like Brazil, experienced a brief miracle and blundered thereafter on account of excessive social repression or unsound governance. It is readily understandable that the most baleful effects of EOI have been severely criticised by social democratic dependency theorists, by marxists and by the churches. More interesting is the fact that M. Lipton formulated an incisive analysis of the *urban bias* of EOI, based on neoclassical principles and norms<sup>81</sup>. For Lipton, the inequality of income distribution between town and countryside, or the bias in income distribution, is the consequence of market imperfections. This is a neoclassical argument in populist disguise. Unequal access to land, capital and technical knowledge increases inequality and enables landlords to influence the local labour market by, for example, 'reducing the wage rate below what it would be in a fully competitive market.

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<sup>80</sup> W. Tyler, 'Growth and Export Expansion in Developing Countries', in *Journal of Development Economics*, vol. 9, 1981.

<sup>81</sup> M. Lipton, *Why Poor People Stay Poor. Urban Bias in World Development*, London, 1977.

The basic claim of Lipton is that if all production factors were priced at their social opportunity cost, a more egalitarian distribution of income would arise. In other words, unequal income distribution is not only the result of an unequal distribution in individual qualities and endowments (e.g., land, capital education, know how). It is, moreover, the consequence of market imperfections. Governments in many developing countries supply labour-saving inputs to landowners and rich peasants at prices below the world price on, for example, the basis of overvalued exchange rates. If production increases employment on the farms, this will increase less than its production. The landowners and all urban food purchasing groups profit more than ordinary rural people. The state policies concerning exchange rates, tax rates, import protection and export promotion subsidies, depart from market considerations and are usually designed in favour of the urban masses. These market imperfections are the reason why poor (rural) people stay poor. Thus, Lipton defines urban bias as the systematic tendency 'to reject both the most efficient and the most equitable policy in favour of urban interest.

## CHAPTER X : ECONOMIC GROWTH AND EQUITY

### 1. Slow and imperfect trickle-down effect

As early as the 1950s, S. Kuznets had published his first study on *Economic Growth and Income Inequality* where he outlined the following historical trend :

Income inequality has widened in the early phases of economic growth when the transition from the pre-industrial to the industrial civilisation was most rapid ; afterwards this movement in inequality stabilises and in the later phases of industrialisation, the gap will narrow.

He added that the inequality of income was highest in the urban sector, and that inequality across the whole country increased as the urban sector grew proportionally more than the rest of the economy.

During the period 1950-70, most of the developing countries witnessed the reality of Kuznets' inequality statement in their growth experience. Policy-makers and development theorists of the 1950s and 1960s, however, focused on 'capacity growth' and paid little or no attention to income distribution. By the mid-1970s, the inequality and poverty debate had become an integral part of development theory and practice.

Several authors divide the population into quintile groups. The growth rate of income for each quintile group (g) is assumed to measure the increase of its social welfare over the specified period. The rate of the increase in welfare of the society as a whole is the weighted sum of income growth for all groups :

$$G = w_{1g1} + w_{2g2} + w_{3g3} + w_{4g4} + w_{5g5}$$

On the basis of this weighted breakdown of income groups, development policy can be designed for the benefit of specific 'marginalised' groups ; for example, the poorest 20 or 40 per cent of the population. A series of empirical studies have illustrated the Kuznets effect : I. Adelman and C. Morris ; F. Paukert ; H. Chenery and M. Syrquin ; and M. Ahluwalia<sup>82</sup>. In their study of 43 countries, Adelman and Morris found the following :

- a. On average, the poorest 60 per cent of the population lives on 26 per cent of the total income ; in countries with a high degree of urbanisation, the income distribution is more unequal.
- b. The income share of the poorest 60 per cent is on average lower in countries with authoritarian regimes, who follow a policy of social repression.

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<sup>82</sup> I. Adelman and C. Morris, *Economic Growth and Social Equity in Developing Countries*, Stanford, 1973 ; H. Chenery and M. Syrquin, *Redistribution With Growth*, London, 1974 ; M. Ahluwalia, "Inequality, Poverty and Development" in *Journal of Development Economics*, December, 1976 ; F. Paukert, *Income Distribution, Structure of Economy and Employment*, London, 1981.

- c. There is no indication that high growth rates raise the share of the poorest groups.
- d. The average share of income received by the top 5 per cent of the population was on average 30 per cent. Government policy was an important determinant for a higher or lower share in the upper 5 per cent group.

Income and employment are highly correlated. The poorest groups are at the bottom because they either have no regular employment or no employment at all. The International Labour Organisation (ILO) has studied this question in more detail. Early neoclassical growth models, such as the Lewis model, assumed that only the capitalist class saves and invests. The logic implicit in this position is that an unequal distribution is better for capital accumulation and growth, since a more equal distribution would increase the number of people that would not save.

Policies directed to income redistribution are of two sorts : social welfare measures and growth strategies with an egalitarian effect. In the field of social welfare measures, we cite the following :

- a. Price policy to reduce the cost of certain goods and services largely consumed or used by the poor.
- b. Employment creation
- c. Direct income transfers or subsidies.
- d. Supply of public goods.
- e. Measures that raise the productivity of the poor.

The measures mentioned under (b) and (e) may be the most effective, as the others are purely consumption oriented at great cost to the government. An adaptation of the growth strategy itself, with the effect that the benefits 'trickle-down' more directly to all groups, seems to be the soundest option. But, in order to achieve the desired trickle-down effect, purely technical measures will not suffice. The implementation of a growth strategy directed toward more equal distribution of benefits depends first, on a social base for support, and secondly, on the political will at the top to push it. Without these two prerequisites the trickle-down blueprints will not materialise<sup>83</sup>. Finally, foreign aid agencies can be helpful when they prescribe conditionality rules on the projects in favour of the poorest or marginalised groups.

## **2. The basic needs approach**

Judged by the conventional yardstick of economic growth, development in the postwar period was a success : it resulted in an annual increase of more than 3 per cent in income per capita for the LDCs. But according to World Bank estimates, 750 to 800 million

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<sup>83</sup> L. Baeck, *Slow Trickle-Down of the Income-Distribution-Idea : A Fact Finding Study on Six African Countries*, Centre for Economic Studies, Louvain, 1981.



people still live beneath a nutritionally defined poverty level. These statistics illustrate the thesis that overall growth and equal distribution do not always coincide.

The best, and perhaps only, way to alleviate the plight of these marginalised people is to increase the productivity of the poor, by *direct methods*. The trickle-down effect resulting from economic growth takes far too long. The bottom 20 per cent may require special programs, oriented toward basic needs such as nutrition, health, sanitation, water and housing. A second line of attack on poverty may consist in programs of integrated rural development and in the replacement of low-productivity employment by higher-productivity employment. This includes the 'working poor' in the informal urban sector and the disguised unemployed in the rural areas.

The idea of 'basic needs' arose amongst Christian and other humanist groups that claim that every human being has a right to human dignity. The International Labour Office was the first world agency to adopt the idea, and shortly later the World Bank followed suit<sup>84</sup>. As such, basic needs programs are integrated in the Bank's development projects.

The basic needs approach (BNA) is directed toward the mobilisation of particular resources or services for specific groups, for example, for malnourished children, unemployed illiterates or for people in the informal sector. The programs are oriented toward needs, not only income. They include non-material needs such as the implementation of self-reliance, more active participation of people, support for cultural identity, etc. In contrast to the national growth model with its unspecified but built-in preference for development in favour of the elites, the basic-needs model resolutely focuses on certain target groups in the population by stressing the struggle against poverty and by giving priority to projects that promote employment. Considering the bleak misery and massive unemployment that prevail in many parts of the world, this seems to me a salutary correction to the conventional perception of development policy.

Specifically, the basic-needs model stresses the following aspects:

- a. Employment opportunities for the poorest groups must be expanded in order to increase their income.
- b. To improve the employment situation, more investment must be made in the sectors that have been neglected, i.e., those amongst the rural masses and in the informal urban sector.
- c. Fundamental services such as education, health care and public transport must be made more available to these neglected sectors and their populations.
- d. Institutions that stimulate the participation of the people as a whole must be strengthened or established.

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<sup>84</sup> I.L.O., *Employment, Growth and Basic Needs*, Geneva, 1976.

- e. On the institutional and material level, greater reliance should be placed on the means available in the village itself. Where possible, *self-reliance* should be the goal.

The models that give precedence to basic needs and that advocate growth with less one-sided distribution, were proclaimed on the international forum by the International Labour Organisation and the World Bank. However, most policy making circles in the First World and, naturally, the privileged groups of the Third World countries, are less enthusiastic. The basic-needs model presumes rather drastic social and political reforms that would challenge the privileges of the upper classes.

## CHAPTER XI : THE NEW INTERNATIONAL ECONOMIC ORDER

The ideas and programs in favour of 'growth with equity' and 'basic needs' were efforts to endogenise development. They emphasised the internal aspects such as social and geographical distribution ; growth balance between urban centres and the country side ; and, last but not least, the increasing marginalisation of the poorest 20 per cent as a result of EOI-strategies. This was not to the taste of the state bureaucrats and political leaders of the authoritarian regimes. They openly supported a more mercantilistic program, such as nation-building, industrial capacity growth, and more leverage for the periphery against the power of the centre countries. Inspired by dependency theories, they emphasised the importance of the external aspects of development. Consequently, they mobilised political support in the forum of the United Nations to transform the 'links' with the West, on the basis of internationally 'negotiated' terms.

In two United Nations agencies, UNCTAD and UNIDO, the idea of replacing the market mechanism by politically negotiated bargaining terms (for commodity prices, for concessional aid and for the transfer of technology) had been germinating since the end of the sixties. In the second half of the seventies, the Group of 77 deemed the moment ripe to launch an orchestrated bid for a 'New International Economic Order' (N.I.E.O.). The success of OPEC had demonstrated that the West had lost control over the market of a vital primary product like oil. Oligopoly capitalism had lost its first battle against a transnational state cartel. The floating of the dollar and the nationalist reactions of monetarism illustrated the competition emerging between the most advanced nations to compensate for their decline in profitability, which resulted in a slow-down in growth. The erosion of Western hegemony, combined with economic difficulties, produced a rift in the OECD-club of nations. In 1971 the US rejected the IMF-discipline as the American lobby could no longer dominate it. Europe and Japan had become more assertive, and the superpower had to share decision-making under the form of a trilateral summit : the United States, Japan and the European Community. The problems of disunion in the centre encouraged the periphery to pursue assertive diplomatic action<sup>85</sup>.

At the core of the debate for a new international economic order, is a proposal by the developing countries to influence world prices and trade tariffs in their favour by means of international, politically negotiated interventions. *Thus, market forces in the international economy should be replaced by politically negotiated price fixing by governments in international conferences.* The developing countries aimed at a collective stabilisation fund for their export revenues. They demanded greater national control of the transfer of technology and more concessional financing at better terms.

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<sup>85</sup> E. Laszlo, *The Structure of the World Economy and the Prospects for a New International Economic Order*, New York, 1982.

Apart from demands concerning raw materials, others have been formulated :

- A unilateral dismantling by the industrial countries of trade barriers against exports from the developing countries, ideally replaced by a general preferential system. Although most of the industrial countries have indeed paid some lip-service to the general principle of tariff preferences, tough resistance to practical implementation followed. Resistance of the First World to a preferential arrangement built up a wall against it, since intra-OECD trade was stagnating, and the key countries of Europe and the United States were facing massive structural unemployment.
- The establishment of a distribution matrix of benefits and losses due to the differential evolution between import and export prices of the developing countries, also referred to as the 'indexation problem'.
- Third World participation in the reform and management of the international monetary system toward a system of greater concessional aid and a relaxation of the 'conditionality-rules' imposed by the IMF.
- Interstate control by the Group of 77 of the transfer of technology to the developing countries. Investment in synthetics would be prohibited when there were sufficient natural products available.
- Settlement of the debt problem on the principle of burden sharing.
- Action toward a more equal distribution of industrial capacity on the world level.
- Reorganisation of agriculture in the developing countries by the launching of viable, small autochthonous initiatives.
- Preferential treatment for the less developed countries in the Third World.

Approximately 8 per cent of the world industrial production capacity was then located in developing countries. The goal of the developing countries, as formulated in the Lima target, was to boost this share to 25 per cent by the year 2000.

The N.I.E.O. was a collective reminder that the external, or inter-state matrix of relations such as terms of trade, management of international trade, financing of international imbalances and so forth, are very important growth determinants. External relations do indeed play a major role in the national growth possibilities for many countries. However, they are necessary but not sufficient stimulants. In spite of its positive side, this N.I.E.O.-perception of development also clearly creates a number of problems:

1. The state, not the market, is regarded as the price setter, since state-interventionist nationalism lies at the basis of it.
2. Because of its one-sidedness, this model places pure economic growth at the centre of the development strategy, to the relative detriment of other facets such as education, agriculture, health, housing and environmental planning.

3. Finally, this model has little to say about internal income distribution. The social and regional dimensions of growth are completely ignored.

The difficulty is that the Third World, especially since the 1970s, cannot be considered as a homogeneous group. As is the case in the First World countries, the structural changes in the Third World economy (e.g., the formation of the OPEC-bloc, the assertive position of the NICs, the plight of the less developed countries, etc.) have produced a basic differentiation in the negotiation program:

- The less developed members of G 77 demand greater concessional aid, urgent measures of debt relief and more trade concessions.
- The most assertive NICs negotiate for structural change in the supranational official organisations like the IMF and World Bank.
- The social democratic group regards both programs as perverse because they fear the consequence : an increase not a reduction in dependency. They therefore advocate a dependency reversal program, based on greater self-reliance and more active South-South relations.

The measures discussed in the forum of the N.I.E.O. were directed exclusively to the implementation of a more balanced distribution of the world income among the various states. In my opinion, this is only a half step, and perhaps not the most direct step, in the direction of authentic development. Looked at with hindsight, this inter-state transfer did indeed respond to the nationalistic desire for growth cherished by the already privileged elites of the Third World. But it did not necessarily entail greater development for the most needy population groups in these countries. More income will not automatically result in better distribution of wealth, either socially or geographically. To achieve this, a drastic social and political reorientation of the development strategies of these countries is required. The strategy advocated by the N.I.E.O. needs to be corrected and completed by *a policy orientation that would provide not only growth for their states but also development for their populations.*

I would hold that a new international economic order is most welcome and certainly necessary. But let us add that the disorder in our world is not only economic. It is also, and primarily, social and political. The implementation of an international economic order must therefore be supplemented by positive social and political reforms. The enormous inequalities in internal income distribution functions against the human, social and political dignity of the masses. Thus, in addition to the new economic order, which is directed to regulate only income distribution between states, our world also needs a more equitable social and political order, an order that organises and stimulates human development for all. The same holds for the economic agencies controlled by the West.

The mobilisation of political clout by the Group of 77 for a N.I.E.O. was the last manifestation of Third Worldism. Its failure hastened the subsequent loss of appeal of

Third World ideology. The industrial core countries were held responsible for the economic plight of the Third World and the onus of the required change was placed upon them. This may have worked at the time of decolonisation, but by the middle of the 1970s none of the OECD-countries were disposed to assume this historical responsibility. A vocal minority of public opinion in the West gave support to a more realistic North-South dialogue, and the Brandt Report supported this as well. But the ideological climate of the West was in full transition. The socio-political constituencies in favour of active interventionism were supplanted by majorities that opted for a free play of the market forces.

## CHAPTER XII : THE DEBT HANGOVER

During the seventies, the American and European banks played a major role in the recycling of petrodollars from the OPEC-countries to the oil importing developing economies. During the eighties, however, the United States itself ran into considerable deficits in its external accounts and dropped out as a major capital exporter. As a consequence, a great many American banks that had bypassed the norms of prudential lending totally interrupted their credit stream to the developing countries. The debtor countries were forced to adopt policies of structural adjustment in order to deal with the generalised credit-stop. The drying up of credit made it dearer and interest rates spiralled upwards. Due to the higher interest rates and the more restrictive monetary policies inspired by monetarism, the debt-burden unexpectedly became much heavier. Within this context, structural stabilisation policies were necessary in order to avert a financial crisis. The International Monetary Fund initiated the famous 'conditionality-credits'. These were financial facilities put at the disposal of governments that agreed to follow a disciplined policy line in the government budget, the monetary and the exchange rate policy, and that favoured market-oriented initiatives such as privatisation and deregulation.

In Latin America, the shift in policies also had effects on the relative influence of the institutions that play a major role in the formation or the legitimization of ideas. In the high-debt countries, the 'financial faction' of the state bureaucracies and the top management of the central banks took over the lead from the CEPAL-minded development administrations. CEPALISM had gained adherence and support in the offices of state planning, the public enterprises, and in the administrations concerned with industrialisation and with production in general. But it had never gained the favour of the policy makers of the central banks and of the ministries of finance. The managers of the monetary and financial institutions privileged the orthodox ideas and policies of the *Centro de Estudios Monetarios Latino Americanos* (CEMLA), which had its seat in Mexico city. With the world-wide shift in macroeconomics toward monetarism, CEMLA gained precedence over CEPAL, and became the regional transmitter of the stabilisation policies inspired by the IMF.

Within this context developmentism declined. The structural adjustment paradigm became the new orthodoxy. The rules of adjustment were enforced by the international financial community, that is, by the International Monetary Fund, the World Bank and by private banks and business groups. The adjustment policies consisted of a package of measures such as reducing the rate of expansion in money and credit supply, eliminating the fiscal deficit, devaluing domestic currency, deregulating prices and government activities, opening up the economy to free trade, and creating an external trade surplus to pay back the external debt. Due to the urge to proceed on all fronts simultaneously, this adjustment process turned out to be more complex than expected, and rather painful in terms of its social costs. In several adjusting economies unemployment reached a high level, wages lagged behind prices and income distribution became more unequal.

During the 1980s, the structural adjustment and stabilisation policies determined the condition of the developing countries more than any other single factor. The debtor countries unexpectedly found themselves in the midst of a new dialectical process. It was characterised by a paradigmatic shift in macroeconomics and by a changing geopolitical context, in which the core countries (North America, Western Europe and the Japanese sphere of influence in the East) initiated another model of capital accumulation in the periphery, based on direct investment. The reform ideas of the early postwar period that had led to the creation of a welfare state in Western Europe and to developmentism for the periphery, had lost their appeal. The power elite of the West adjusted its ideas and policies to more realistic goals. These changes occurred in a favourable atmosphere. The Soviet Union was quietly phasing out communism as a realistic alternative to the market system of the West, and even Deng Xiaoping's China opened its doors for Western investments. Confidence in the positive effects of government steering had faded everywhere, and the belief that the laws of the market could achieve better results won credence.

The change to other methods of capital formation, impulsed by external financial resources, was clear enough. In the early postwar period, international financial funds had been the principle source of finance for the developing countries. These public resources were provided by the official financial aid agencies of the centre countries and by multilateral agencies such as the World Bank and its affiliates. The oil-shock had a double effect: private capital was easily available, and in terms of volume it became more important than the official aid provided by the governments of the developed countries. The sudden and unexpected surplus of funds originating in the oil exporting countries was recycled by the Western banks to the developing countries. Due to the first oil-shock, private bank capital was easier to obtain than public financial aid. The transition to external borrowing from Western banks was a rational procedure for most developing countries. The international market supply of finance was apparently without limits, and interest costs were low. The abundant supply of international capital created a euphoria and a spending spree of short duration. The financial intermediation of the surplus funds from oil exporters to the oil importers in the developing countries gave a tremendous boost to international banking. It also gave an impetus to the internationalisation of the financial markets. A major change, however, was that in the private financial markets the borrowing countries had to bear the brunt of the risks involved. The banks provided international credit only on short- and medium-terms against floating or readjustable interest rates. The new source (private capital market), the volume and the cost conditions (interest) were no problem as long as international credit was abundant at a low cost<sup>86</sup>.

In most NICs, growth rates before 1980 were higher than after the debt crisis of the 1980s. This was relatively more the case in the Latin American NICs than in the developing countries. Latin American countries also had very high inflation rates. It was striking that

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<sup>86</sup> E. Gannagé, *Economie de l'Endettement International*, Paris, 1995.



Venezuela, although an oil exporter, performed badly in the 1980s. Malaysia, South Korea and Thailand maintained relatively high growth rates, coupled with mild inflation. For the least developed Third World countries, the debt crisis was still a greater plight than for the NICs. However, in all the countries concerned, the low income groups suffered relatively more in the adjustment process<sup>87</sup>.

The debt crisis of the 1980s in the developing countries was a result of the paradigm shift in the core countries (the US, Japan and the European countries), which adapted the monetarist creed to combat their high inflation rates. The second oil-shock of 1979 produced a serious situation of stagflation or of recession with inflation. In most leading industrial countries, the earlier tolerance for inflation in preference to unemployment gave way to a frontal attack against inflation and government subsidised activities. Inspired by monetarism, the governments of the core countries resorted to a tight control of money supply. The new economic strategy of a tight money supply provoked a steep rise in real interest rates. In this new situation, the developing countries had to pay higher interest rates not only on the new sources of credit, but also on the past borrowed stock of capital. As a result, new debt was taken up at higher interest rates to service old debt. Thus, by the early 1980s most developing countries were involved in an unforeseen and severe debt-trap. A crisis was looming in which debt-repayment at a high cost dominated all other policy objectives. The ideology of developmentism waned and 'adjustment' became the key target, enforced by the financial markets and the Bretton Woods institutions.

Let us illustrate this by the conditionality-requirement embodied in the IMF-stabilisation system. Some observers argued that external forces (the oil price lifts, the deflationary and protectionist policies of the key countries of the OECD zone, as well as the drying up of concessional aid flows) were the major source of the widespread financial imbalance. Accordingly, their plea was that the IMF-conditionality should be more lenient. In Latin America, the structuralists conceded that the IMF-stabilisation policies might be able to put the external financial balances in order, but they protested against its social and economic consequences. They feared the socially repressive effects and argued that they would stifle the normal process of growth. Empirical evidence has indeed proven their case, which held that the lower income groups would have to shoulder the heaviest burden.

Some highly indebted countries succeeded better than others in their structural adjustment and were able to achieve high growth rates. The literature on structural adjustment and on economic policy reform has given a great deal of attention to the better performance of the East Asian dragons, especially of South Korea and Taiwan, as compared with the poor results of most Latin American economies. It is interesting to note that several analysts underlined the degree of equality in income distribution as a positive factor, and inequality as a handicap. A more equal income distribution positively influences social cohesion, which gives relatively more political clout to the concerned government to impose the

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<sup>87</sup> A.Ferrer, R. French Davis and A. Barros de Castro, 'Trois points de vue Latino-Américains sur la question de l'endettement', in *Problèmes d'Amérique Latine*, n° 4, 1984.

hardship of stabilisation policies. In this respect, the more egalitarian countries of East Asia scored better than Latin America, with its unequal income distribution<sup>88</sup>. This may also explain the fact that in some Latin American countries a number of grassroots movements arose, in protest against the growing injustice caused by inequality.

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<sup>88</sup> C. Ominami, *Amérique Latine : les ripostes à la crise*, Paris, 1988 ; S. Haggard and R. Kaufman, *The Politics of Economic Adjustment*, Princeton, 1992 ; J. Williamson, *The Political Economy of Policy Reform*, Washington, 1994 ; D. Rodrik, 'Understanding Economic Policy Reform', in *Journal of Economic Literature*, n° 1, 1996.

## CHAPTER XIII : BRINGING ETHICS BACK IN

### 1. Renewed interest in the Mediterranean tradition

Viewed from the long span of intellectual history, economic science is of a relatively recent birth. When asked for the date of birth of their science, most economists hesitate. Some would mention the Mercantilists. Others would refer to Adam Smith as the founding father of the 'classical' tradition. Many would suggest the neoclassical triad of Jevons-Walras-Menger. In my view, the concept of an autonomous branch of science called economics was only possible in the period following the Enlightenment, when a group of social scientists severed the subject matter from moral philosophy. In the civilisations of the Mediterranean, economic thought had been embedded in practical philosophy (ethics and politics) or in the normative systems of the revealed religions, for more than two thousand years<sup>89</sup>. The pre-modern traditions of economic thought were developed by the major thinkers of the Mediterranean civilisations: the philosophers of Classical Greece and of Hellenism, the Roman rhetors, the early Church Fathers, the Islamic and Latin Scholastics, the Italian humanists, and the post-Renaissance Scholastics (also referred to as the School of Salamanca) and their Portuguese colleagues. All these schools perceived the economy as embedded in a complex web of social and political relations, regulated by religious and ethical norms. In their worldview, a holistic approach prevailed in which economics formed only a subordinate segment of ethics and politics. Ethical and religious norms prescribed the social obligations of the individual both toward himself and the community. These Mediterranean thinkers were in fact the historic, but now largely ignored, pioneers of development thinking.

In Aristotle's conceptual world, development meant the realisation of the inherent natural potentials (e.g., of an individual, a society, an idea) toward a state of maturity<sup>90</sup>. To describe this process in greater detail he used various terms, such as *becoming*, *unfolding*, *flourishing* and *flowering* into a pre-given, natural form of completeness (*Physics*, Book II). In Aristotle's scheme, the unfolding of the inherent virtualities was not conceived to be a process that continues without end. In stark contrast to the infinite possibilities for progress and development proclaimed by modernity, the ancient Greeks could not conceive, and still less confer, a positive value to an open-ended unfolding of virtualities (*dunamis*) into actualities (*energeia*). Their world was that of the limited good. Indeed, the Socratic philosophers in particular frowned upon individuals and societies that might become the victims of insatiable desire. It was the Christians who initiated the notion of the infinite good, but they situated its realisation in the afterlife, that is, in heaven. The

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<sup>89</sup> L. Baeck, *The Mediterranean Tradition in Economic Thought*, London, 1994.

<sup>90</sup> The Aristotelian concept of development received special attention in the philosophical analyses of Martin Heidegger. For a commentary on the change in meaning of this concept in the Roman world, and later in the medieval treatises of the Latin Scholastics, see J. Beaufret, 'Energeia et Actus', in *Dialogue avec Heidegger : Philosophie Grecque*, Paris, 1973. Cornelius Castoriados extended this seminal discourse to the literature of the postwar period in his study 'Reflections on Rationality and Development', in *Thesis Eleven*, n° 10, 1985.

humanists of the Renaissance were the precursors of the utilitarian philosophers, who transferred the possibility of an infinite good from heaven to earth. The human and material wants were proclaimed to be infinite. Modern man gradually came to be understood as a being with unlimited wants, or as a bundle of appetites. Since the means are limited, a science of economics was needed, that is, an allocative mechanism of means which best maximises the satisfaction of the infinite wants.

Aristotle's analyses on the commercialisation, monetarisation and the ensuing 'financiarisation' (*chrèmatistikè*) of the economy were the theoretical strides of a genius. His discourse on chrematistics was an historical benchmark for centuries. In Aristotle's view, chrematistics or the pursuit of wealth for wealth's sake, results in an unnatural course of development. This occurs when the acquisition of money takes pride of place in the economy, and in the society in which it is embedded. When the chrematistic spirit prevails, moral decadence inevitably sets in. The medieval Scholastics also produced a high tide in development ethics. The doctrines of the Islamic and Latin Scholastics on the just price opened novel vistas on the moral constraints of the price mechanism, and they also offered interesting analyses on the terms of trade in general. In an outburst of creativity, the School of Salamanca formulated the quantity theory of money and the doctrine of the international purchasing power parity. This theoretical breakthrough illustrates that these Schoolmen also had a clear insight into the (international) market mechanism.

When the intellectual influence of the Mediterranean civilisations had lost its spell, and the geopolitical and economic predominance migrated to the North, that is, to the upcoming nations of the Atlantic (Western Europe and North America), the paradigm shift which had been incubating since the seventeenth century caused a radical break in favour of utilitarianism and economic hedonism. The Western social scientists of the Enlightenment and the nineteenth century Neoclassicists, who may be considered to be the fathers of modern economics, were the first social philosophers in history to openly proclaim that self-interest was not only permitted, but that it was a much better guide for the public good than altruism. This paradigm-revolution is already discernible in Adam Smith's oeuvre, who began his career as a professor in moral philosophy. In his *Theory of Moral Sentiments* (1759) he was still a Mediterranean moral philosopher with a more than usual interest in economics. Like his predecessors, he upheld the ethical dimension of the subject matter. It was in *The Wealth of Nations* (1776) that he initiated his celebrated 'disembedded' version of the commercial society and of its theoretical legitimisation, namely, economics<sup>91</sup>.

In the wake of this revolution in thought, modern economics emerged as a single-focused, autonomous and formal framework of thought. Its axiological base had completely emancipated itself from moral philosophy. The *homo economicus* was born. A great

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<sup>91</sup> J. Hont and M. Ignatief, *Wealth and Virtue: The Shaping of Political Economy in the Scottish Enlightenment*, Cambridge, 1985.

number of today's economists would argue that economics became the queen of the social sciences simply by completely disentangling itself from ethics and politics. However, this highly praised value-neutrality, as well as the disembeddness of economics from the socio-political and cultural web, are handicaps for economists who cherish social and political relevancy in their work. In development economics especially, the value-neutral abstractions have led to a theoretical dead-end. Indeed, development economics has not to do with marginal shifts, but with structural and motivational changes in non-Western cultures.

Anthropologists and economists with field experience challenge the universalist claims and argue that economic thought, like the intellectual discourses of all the social sciences, are socio-cultural constructs. The central process of all economies, making a livelihood, is culturally patterned and modelled in diverse ways<sup>92</sup>. And famous non-Western members of the profession, like the Japanese economist Takamitsu Sawa and others, proclaim that modern economics is an ideological product of the Western industrial world in a particular phase of its historical development<sup>93</sup>. Compared to the pre-modern diversity, the novelty of Western economics is the particularistic exception, not the universal norm. The ideal type of the *homo economicus* is that of a rational, decision-making, economically optimising and hedonistic individual. It would be hard to maintain that this individual, or should we say robot, is a representative figure of Western culture, and still less so of other cultures. In situations of economic development, with the inevitable mix of local and global forces and diversities, the vantage point of *glocalism*, characteristic of the comparative approach, is to be preferred.

The spread of economic growth to the most remote corners of the globe caused a *generalised economisation of society and of its values*. The rising import of material aspirations in society resulted in the ascendancy of economics over the other social sciences. Due to this hegemonic position, the economist acquired the eminent status of distinguished guru in a growing number of institutions. And yet, when the prestige of the economic profession was at its zenith, the triumphal mood was accompanied by misgivings and questioning. This spawned a wave of articles and books on methodology. The economic slowdown of the Western core countries in the second half of the seventies had come as a shock to a great number of economists. In the new thematisations that followed, the mainstreamers opined that the oil-shock was the major villain in the piece. The most critical in the profession delved more deeply and pointed to the shortcomings of economic science itself. The questioning of the basic principles produced a number of epistemological and methodological spin-offs, eliciting a new approach in the branch of welfare economics<sup>94</sup>. The most insistent critics emphasised the irrelevance of a good deal

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<sup>92</sup> M. Sahlins, *Culture and Practical Reason*, Chicago, 1976 ; S. Gudeman, *Economics as Culture*, London, 1986.

<sup>93</sup> T. Sawa, 'The paradigm of the high growth period', in *Japan Echo*, n° 4, 1984.

<sup>94</sup> J. Hicks, *Causality in Economics*, Oxford, 1979 ; D. McCloskey, 'The Rhetoric of Economics', in *The Journal of Economic Literature*, 1983 ; C. Schmidt, *La Sémantique économique en question*, Paris, 1985.

of modern economic theory as a guideline for policy. An often heard complaint was that the prestige accorded to mathematical models and to econometric forecasting had led to an impasse. In the ensuing debate over macroeconomics, the supply siders and monetarists won. Keynesianism lost not only theoretical disciples, but also the socio-political constituencies which had upheld the welfare state at home and developmentism in the periphery.

With the triumph of neoliberal thought and practice, development theorising entered a crisis mood. In a provocative essay, the famous development economist A. Hirschman stated that 'much of the zest and hope that characterised work in this area of economics in the 1950's and 1960's is no longer present'. A few years later, the economist H. Bruton developed this idea in more detail<sup>95</sup>. Bruton, who was one of the well-known exponents of the 'mainstream development theory', is now engaged in serious self-critique. He asserts that with only limited exceptions, in both the literature and in practice, 'development has come to mean a replication of the West. The equalisation of development with Westernisation impeded the construction of an authentic development theory'. And the neoliberal D. Lal went so far as to argue that the demise of development economics is likely to be conducive to the health of both the economics and the economies of developing countries<sup>96</sup>.

Well-known theorists in economic development admitted the failure of both theory and practice. They realised that its shortcomings were the consequence of an inadequate paradigm. In a majority of cases, developmentism had been able to generate economic growth, but it had concomitantly displaced a traditional system by a modern (Western) system, usually at great social, economic and cultural costs. Sociologists and anthropologists were in the same critical mood and underlined the devastating effects on cultural identity and integrity. The trend of the times also marched against the themes of neomarxism. Their dogmatic and abstract theses fell with the bricks of the Berlin Wall<sup>97</sup>.

The times were ripe for a paradigmatic move, back to the roots of a more ancient tradition: the Mediterranean tradition and its ethical base.

## **2. Development ethics : A new theme**

The value-neutral models of modern economics are, up to a point, able to describe and explain what was, is and can be. What *ought* to be, however, belongs to the domain of ethics. By its very nature, development economics implies that basic choices have to be

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<sup>95</sup> A. Hirschman, 'The Rise and Decline of Development Economics', in *Essays in Trespassing*, Cambridge, 1981 ; P. Streeten, *Development Perspectives*, London, 1981 ; H. Bruton, 'The Search for a Development Economics', in *World Development*, 10, 1985 ; see also the critical essays in X. Greffe (ed.), *Science économique et développement endogène*, Paris, 1986 ; G. Latouche, *Faut-il refuser le développement ?* Paris, 1986.

<sup>96</sup> D. Lal, *The Poverty of Development Economics*, London, 1983.

<sup>97</sup> For a comprehensive review of the crisis mood, see F. Schuurman, *Beyond the Impasse : New Directions in Development Theories*, London, 1993 ; D. Hettne, *Development Theory and the Three Worlds*, New York, 1995.

made between several goals and policies, each of which leads to different outcomes. The different paths that lie open before the decision makers and their constituencies, imply and impose a great number of value-laden choices. Authentic development cannot materialise without a clear view as to the most adequate goals and the strategies to achieve them. Economics can clarify the instrumental means to meet these ends, but the projection of an authentic model of development requires, first and foremost, the working out of a well-coordinated set of goals. In order to arrive at a harmonious whole, the ends should be hierarchically ranked according to normative criteria arising outside of economics. According to Aristotle, the historical pioneer on development thematisation, ethical norms provide the overarching principles over and above economics. As noted above, in practically all the succeeding civilisations of the Mediterranean, Aristotle's ideas on development ethics were absorbed by the most prominent scholars and cherished as a canon.

Aristotle's discourses on the politics and ethics of development are spread over two essays. In *Politics* (Book I, chapters 8-11), the matter is considered from the viewpoint of the dichotomy *natural/unnatural*, while in *Ethica Nicomachea* (Book V, chapter 5), it is analysed on the basis of the criteria *just/unjust*. Of the many socio-political options available in relation to the ends and means of development, Aristotle claims that political philosophy offers the ultimate guiding principles. They are the 'visible' hands that ought to orient decision makers toward a natural course, that is, toward a course of development that responds to the basic needs of the community. The ideal development course, which Aristotle refers to as the 'flourishing of nature', is a course that also meets the criterion of justice. The socio-political community-ends of the *polis* that concomitantly comply with the criterion of justice, are those which guarantee a course of development toward the highest good. In order to achieve a just course, ethics enlightens us as to the best ends. In a well-ordered praxis (*euoprattēin telos*), that is, in a praxis oriented to the highest good in life (*eudaimonia*), the means are subordinated to the highest ordered ends. Within Aristotle's paradigm, the art which we call economics is merely a discourse on instrumental means ; its principles are subordinated to the discourse on ends, namely, ethics. Since man is a social and political being, only an *eudaimonic* synthesis of socio-political and ethical norms and ends can engender harmonious development.

One of the first postwar thematisers on development who considered ethics to be a guiding principle in theory as well as in practice, was the French Dominican father Louis Lebreton. In the fifties, he founded his famous institute *Economie et Humanisme*, with its central seat in Paris. A number of African offspring's were affiliated with the Paris centre. The core of the message was the concept of integral development, that is, development oriented toward humane ends, as well as toward adequate and just means to achieve them. From the vantage point of integral development, humane ends are by definition a harmonious ordering of basic needs and priorities in various domains : economic, social, political, cultural and spiritual. One of Lebreton's disciples, Denis Goulet, spread the message to a number of Christian audiences and movements engaged in social development in the

United States<sup>98</sup>. Paul Steidlmeier, another typical exponent of the Christian humanist tradition in development, lists the ideal ordering of priorities as follows:

When it gets down to the concrete options, I advocate a certain qualitative orientation in development policy based on the following priorities : the liberty of the oppressed over the freedom of the more powerful, the social opportunity of the marginalised over their exclusion by certain elites, the needs of the poor over the mere wants of the wealthy, the duty to contribute to the common good according to ability rather than be apathetic or merely seek narrow self-interest, and the reinforcement of patterns of social justice through social incentives and sanctions rather than surrendering the determination of due process to mere group egoism or vindictiveness.<sup>99</sup>

One of today's most prominent Aristotelians is, without doubt, Amartya Sen. In a number of influential publications he first voiced his misgivings about modern welfare economics. According to Sen, with its methodological individualism, that is, in its disregard for collective goals, and on account of its static nature, modern welfare economics (e.g., the principle of Pareto optimum) is a ponderous theoretical apparatus with only a slender guideline-capacity for policy making. After this theoretical rite of initiation in the sect of the new welfare economics, he turned his attention to development ethics<sup>100</sup>. Sen focuses his analytical scheme on the relationship between social goals and individual choices, set within a democratic society with a sense for social justice. In his approach, the interdependence of the individual choices figures as a basic concept. From the vantage point of social reality, the concept of interdependence is indeed a more relevant axiom than the supposed individualism of the *homo economicus*.

According to Sen, economics and the economy are not autonomous, single-focused domains. They are embedded in societies characterised by value-laden choices. Economic activities such as production, commercial exchange and consumption of goods and services are rooted in a web of social and institutional settings. This web is much broader than the market. Thus, economic analysis ought to take these links and their interdependencies into account. Indeed, in order to be morally relevant, economics should measure, evaluate and order these activities from the standpoint of a broader criterion than that of individual utility. Accordingly, Sen proposes a ranking criterion that transcends the economy, a meta-ranking rooted in ethics. He does agree that the conventional branch of development economics has been successful in the identification and analytical exploration of factors that may lead to economic growth, namely, capital accumulation, mobilisation of the abundant (under-employed) labour supply, backward and forward linkages, etc. The error

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<sup>98</sup> D. Goulet, *Incentives for Development : The Key to Equity*, New York, 1989 ; D. Crocker, 'Toward Development Ethics', in *World Development*, n° 5, 1991 ; for a general view on ethics and development see : J. Ph. Platteau, "Behind the Market Stage Where Real Societies Exist : The Role of Moral Norms", in *Journal of Development Studies*, n° 4., 1994.

<sup>99</sup> P. Steidlmeier, *The Paradox of Poverty : A Reappraisal of Economic Development Policy*, Cambridge, 1987.

<sup>100</sup> A. Sen, *Collective Choice and Social Welfare*, San Francisco, 1970 ; A. Sen, *On Ethics and Economics*, Oxford, 1987.



in the approach consists in the identification of development with economic growth. Economic growth is only a means, and not always the best or most efficient means, for the achievement of broader development goals. In true Aristotelian fashion, Sen holds that in order that development be *eudaimonic*, it should be organised in such a way that it enables people to live as good and flourishing a life as possible. In accordance with this guiding principle, he conceives of development as a process which (ideally) expands the possibilities of people : live long, be well nourished, take part in humane pursuits. This capabilities approach concentrates on goal-rights. In some of his later publications, he also refers to these goals-rights as *entitlements*. Sen's ethical approach reaches beyond the mere welfarism of conventional developmentism. His normative economics offers a theoretical and methodological deepening of the basic needs approach. As such, it offers promising new vistas on more humane development.

More recently, the Italian political philosopher E. Berti published a collection of essays, covering ongoing research, on today's theorising in Aristotelian practical philosophy by colleagues from Germany, France, Italy and the United States<sup>101</sup>. Its scope is not an antiquarian nostalgia for pre-modernity, as this would entail a loss of some of the fundamental acquisitions of modernity. On the contrary, it also reacts against the complacent irrationality that is often linked with the most radical representatives of postmodernism. Rather, the survey contests the abstract mathematical basis of modern social and economic science, and opts for a rehabilitation of the historical concrete notion of *ethos*. The new thematisation of today's practical philosophy entails an intellectual cross-fertilisation that reintroduces ethics in the social sciences, and thus in economics, where it belongs.

Development ethics has also focused a great deal of attention on the social roots of the moral base. Some of the ethicists who inspire or who are engaged in grassroots movements offer theoretical underpinnings to, and legitimise the positive role of, non-elite participation in the shaping of the course of development<sup>102</sup>. Indeed, from a democratic standpoint, the ordinary citizen has a basic right to participate in decisions affecting the ends and means of development.

### **3. The moral base at work in Latin America**

The moral base of development was not only an offspring of practical philosophy, but historically it was also embedded in the religious injunctions, prescriptions and commandments. In all times and in all cultures, religions have been participants in the constitutive dimension of the humane life. This may explain why most of the thematisers on modernity (Nietzsche, Weber and Heidegger) analysed the impact of religion on society, that is, on its development and on its systems of meaning. Being children of that special brand of post-Enlightenment German philosophy, they all adhered to the

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<sup>101</sup> E. Berti, *Tradizione e Attualità della Filosofia Pratica*, Genoa, 1989.

<sup>102</sup> K. Jameson and C. Wilber, *Directions in Economic Development*, Notre Dame, 1975.

secularisation-thesis. Today, however, in different parts of the world and for various reasons secularisation is being challenged. Religion is firmly back as a structuring element of the symbolic and cultural imagery, and as a socio-political force as well. This is the case especially in the developing countries and in the lands that until recently belonged to the Soviet bloc<sup>103</sup>. Of late, the rhetoric and the actions of religiously inspired groups have become more insistent and radical.

Within the Christian culture we can mention the different encyclicals of the Popes, the pastoral letters and the publications of the World Council of Churches<sup>104</sup>. The original institutional opening was initiated by the Second Vatican Council, where-after the then regime-bound Church started to take a more independent position with regard to the state machinery and to the established power groups. After an intensive ideological struggle between conservative Christians and those more future-oriented, the Church opted for the emancipation of the deprived groups in society. This is reflected in the following examples. In the encyclical *Populorum Progressio*, Pope Paul VI declares that real development cannot be reduced to the notion of a mere growth in material wealth. Authentic or integral development should also promote humane values, with due respect to social justice<sup>105</sup>. In the more recent encyclical *Sollicitudo Rei Socialis* of John Paul II, great attention is given to the structural power of the First World, as well as to the means to create more employment and to meet the basic needs of the poor in the Third World with more dedication and efficiency. The religious doctrines on development circulate worldwide and have an impact on the development policies outside the circle of believers. The special attention given to the poor by institutions like the World Bank and the United Nations is but one illustration.

At approximately the same time as the institutional reorientation, bottom up initiatives also became manifest. In Latin America, for instance, the moral base has been operative in the course of the last two decades. It manifested itself by means of numerous Church-organised base communities, referred to as the *basista* movement (*comunidad eclesial de base*) or as the CEBs.<sup>106</sup> For years, socially aware pastors and laymen have played the role of agents of change for the popular masses. While the CEBs originated in Brazil, they have since spread to other countries in Latin America, Africa and Asia. Here we focus on the original movement in Brazil.

There the CEBs focus their attention on the following objectives :

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<sup>103</sup> J. Finn, *Global Economics and Religion*, London, 1983 ; W. Swatos, *Religious Politics in Global and Comparative Perspectives*, New York, 1989 ; P. Michel, *Politique et Religion : la Grande Mutation*, Paris, 1994.

<sup>104</sup> R. Berthouzoz and R. Papini, *Ethique, Economie et Développement : l'enseignement des évêques des cinq continents*, Paris, 1996.

<sup>105</sup> S. Lombardini, 'The encyclicals of peace and development from *Pacem in Terris* to *Sollicitudo Rei Socialis*', in *Notes et Documents* (Institut International Jacques Maritain, Rome), n° 23, 1988.

<sup>106</sup> For detailed studies on the CEBs, see F. Betto, *O que é Comunidade Eclesial de Base*. São Paulo, 1980; T. Bruneau, *Religiosity and Politicisation in Brazil*, Austin, 1981.

- a. They emphasise the respect for the values and aspirations of the popular classes. In this 'grassroots work' they stress the pedagogy of participation and of conscientisation (*conscientização*), which is intended to overcome the paternalism that characterised most previous work with the popular classes. They implement their programs by means of a more socially-oriented pastoral policy against oppression and injustice. Since the 1970's, the Church has been a defender of human rights in the authoritarian regimes of Latin America.
- b. The so-called 'liberation theology' functions as a new religious ideology of emancipation against internal as well as external manipulation. It strives to 'delink' from the intellectual paternalism that is exerted by some practitioners of West European and North American theology. Liberation theologians hold that the secularising theology of Western Europe and of the United States is inadequate, when one considers the historical and cultural aspirations of the Latin American societies. They perceive Western theologians as too rationalistic and as too removed from the people. They thus reject imported models of theology.
- c. In their work with the popular masses the basista groups take the same anti-elitist position. *Basismo* refers to the belief of the pastoral and social workers in the capacity of the base to resolve its own problems without the assistance of the intellectuals and professionals of the political parties, trade-unions, co-operatives, or any other outside support. As such, they work with small, limited units which are independent from large organisations. They direct their action at 'conscientisation' with local, limited objectives. The 'conventional wisdom' of expert 'outsiders' such as economists, sociologists and also educationalists is taken with a great dose of scepticism. Their basic orientation is toward 'self-reliance'.

It is clear that this way of working with the popular masses of society has a positive educational effect. The question is whether this kind of in-depth operation can be sufficiently effective without assistance from external expert co-operation. The main movers of complex societies are and remain big organisational units such as parties, labour unions and other structured socio-political organisations. While the base communities can work as a ferment among the deeper layers of society, if they want to move beyond mere 'conscientisation', and if they wish to become operational at a macro-societal level, then a mass organisation with the inevitable bureaucratic techniques will prove to be indispensable. In sum, this novel approach has been criticised as 'naive political messianism' as, according to the critics, this can operate only on a local, small-scale basis and as such can have no impact on the national movements and centres of power<sup>107</sup>. More metaphorically speaking, it can be formulated as follows: 'small is beautiful, big is powerful, but only the combination of the two is successful'.

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<sup>107</sup> S. Mainwaring, 'The Catholic Church, Popular Education, and Political Change in Brazil', in *Journal of Interamerican Studies and World Affairs*, n° 1, 1984.

Now that the authoritarian regime has been replaced in Brazil by a system of electorally steered politics, this problem is still more relevant than before. Most of the Church's intellectuals have grasped the need of a better link between development work at the local level and actions that influence social, political and economic macro-policies. The distance which separates the popular sectors from the national political machinery cannot be overcome through the dynamic of the popular movements alone. The living and working conditions of the great majority can be transformed only if the popular classes are capable of influencing the centres of decision and power. A policy aimed at establishing a link between the macro and micro approaches seems to be a useful guideline to achieve a balance between political efficacy at the national level and local *basista* action. Without this link, a good deal of the energy of the moral base may be spoiled.

#### 4. Africa's messianic movements

Central Africa may be called a hotbed for messianic movements and sects with an outspoken prophetic flavour. In the past, the messianic movements of protest against the social and economic destructuring of the African societies under the pressure of colonisation, were studied in great detail by anthropologists. With the renewed interest in the relationship between development and religion, sociologists and political scientists have also focused on the religious dynamics in postcolonial Africa<sup>108</sup>. These studies underline the extraordinary vitality of the charismatic movements and sects. Some perceive these movements as symbolic sublimations to compensate for the social and economic hardships ; others contend that they are prone to metaphorise the new power relations and patterns of domination in the postcolonial nation states. Still others state that even in the authoritarian nation states of Africa, the administrative structure is unravelling and thus creating a void. The vacuum causes a displacement of societal energy toward ethnic loyalties and to the symbolic and cultural domain of religion.

In Africa, the Christian religions (Catholicism and Protestantism) are historically associated with the colonial form of modernisation. After independence the pastoral functions of these Western religions were taken over by Africans, but their message continued to be perceived as a theodicy of cultural domination. In the aftermath of independence, the African societies have recovered some part of the territory they had lost under the influence of colonisation and postcolonial Westernisation : in the material or economic field by means of a revitalisation of the subsistence sector (and of its half-brother, the informal sector); and in the symbolic and cultural fields through a resurgence of paganism<sup>109</sup>. Thus, various forces of re-Africanisation are at work at the expense of the postcolonial nation state and of the modern (Western) sector of the

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<sup>108</sup> J. Peel, *Aladura : A Religious Movement among the Yoruba*, London, 1969 ; J. Fabian, *Jamao : Charismatic Movement in Katanga*, Evanston, 1971 ; W. Van Ginsbergen, *Religions Change in Zambia*, London, 1981 ; J.F. Bayart, *Religion et modernité politique en Afrique Noire*, Paris, 1993 ; J.P. Dozon, *La cause des prophètes*, Paris, 1995.

<sup>109</sup> A. Mbembe, *Afriques Indociles : Christianisme, Pouvoir et Etat en Société Postcoloniale*, Paris, 1988.

economy as well.

The African nation states were unable to supersede the emotional ties of the ethnic and tribal loyalties. The mismanagement by the political elite, the prebendal malversions, the exploitation of the people, militarisation and finally, the loss of contact with the moral base, resulted in the erosion of the postcolonial state's legitimacy<sup>110</sup>. The mismanagement by the political elite and the bourgeoisie, in combination with their catastrophic failures in growth strategy, produced the poorest economic results in the world. The African continent's adjustment policy produced a supplementary shock. The dismal situation engendered a collective mindset of frustration, which induced the societal forces of pre-colonial times to take their revenge. In the African states, the civil society and its intermediary organisations, which function as a countervailing power, are either non-existent or completely manipulated by the postcolonial power elite. In such a situation, a considerable vacuum is created in which other emotional ties and loyalties can take the lead. This explains, in part, the resurgence of ethnicity and the revival of the symbolic and cultural order of religious culture.

In this process, the well-organised Christian religions face two pre-modern competitors : an expansive Islam and all forms of a revitalised messianism. These forms of cultural indigenisation in the restructuring of African society are supported by the indigenisation of the material sphere or by the resurgence of the subsistence economy. This is not only the case in the rural areas ; large segments of the urban centres are ruralised as well. In sum, in various parts of the world, recent history reveals that religion is once again an influential force in the domain of social imagery. The symbolic superstructure functions as a cultural prism and code to name and assess the dynamics of the real world.

Since the 1980s a Pentecostal wave, coming from the Southern part of the United States, has been flooding over the urban centres of Sub-Saharan Africa. Their well-oiled organisations and highly motivated, mostly lay, pastors have set up social networks or community centres who attract young members of the mainline (this is the Protestant and Catholic) churches. A great number are voluntary associations who profess to be non-denominational. One can become a member by making 'a decision for Jesus', but their pastors adhere to fundamentalist Christianity. In their view religion creates bonds of kinship and the members are told to be brothers and sisters. Their messages and gatherings respond to the need of new community bonds, now that the traditional ones gradually unravel and are growing thinner. According to P. Gifford, the Pentecostal churches are new and important voluntary associations of true brothers and sisters with a novel organisational style. Their impact on the Christian landscape is just as substantial as that of the NGOs on the socio-political terrain<sup>111</sup>. However, the Catholic and Protestant

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<sup>110</sup> C. Young and T. Turner, *The Rise and Decline of the Zaïrian State*, Madison, 1985 ; R. Joseph, *Democracy and Prebendal Politics in Nigeria*, Cambridge, 1988.

<sup>111</sup> P. Gifford, "Some Recent Developments in African Christianity", *African Affairs*, n° 93, 1993 ; id. *The Christian Churches and Africa's Democratisation*, Leiden, 1994.

churches have kept a formidable presence and influence in the fields of education, health and increasingly in development at large<sup>112</sup>. The Catholic organisations employ a fast growing number of lay helpers who are integrated in the mushrooming NGOs. This NGO-isation of the various development activities of the churches brings them also at the grass-root level. As such they are part of the emerging civil society. In the domain of socio-politics and development the churches have become an influential factor. Participation in religious organisations is one of the most prevalent forms of associational life in Africa today.

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<sup>112</sup> The International Institute Jacques Maritain (with its center in Rome) is since 1990 engaged on a project 'Ethics, Economics and Development : Episcopal Teaching from the Five Continents', The workshop on Africa was held in Abidjan and the proceedings were published by R. Papini & V. Buonomo (eds.), *Ethique et Economie : le discours social de l'Eglise en Afrique*, Nairobi, 1994 ; for the complete document see : R. Papini (ed.), *Economie et développement ; Répertoire des documents épiscopaux des cinq continents* (1981-1991), Paris, 1997.

## CHAPTER XIV : THE CULTURAL REVIVAL OF ISLAM

### 1. Back to the roots

History informs us that the Islamic culture was at its zenith from the seventh to the fifteenth century. It created a cultural 'golden age' and brought development to the lands of the Middle East and Southern Europe. In my view, Ibn Khaldun is one of the great pioneers in development theory<sup>113</sup>. But by the beginning of the eighteenth century, the cultures and societies of the Mediterranean civilisations had receded into relative decline. The new nations of the North - France, England, Germany, Holland, Belgium, and later the United States - carried the day and became dominant. With the 'atlanticisation' of Western culture, a new development model came into the world, based on the secularisation of ideologies and values, industrialisation and modernisation. From the vantage point of the new Western centre, the whole Mediterranean region, and with it the Islamic countries, were downgraded as the material and cultural backwaters of the West.

In the nineteenth century, the first seeds were sown that would prepare the Westernisation of the urban bourgeoisie of this region. This challenge wrought frustration and resentment amongst the conservative and devout Muslims. It also elicited a desire to rethink the Islamic culture within the new historical context, amongst reformers such as Afghani and others. The cultural wound was not healed. However, the mass of believers did not depart easily from their ingrained impulse to think and to try to live in terms of the Islamic world view. The dominant twentieth-century phenomenon in the area was the rise of political nationalism and the formation of (conflicting) nation states. The intensification of the Westernisation process during the postwar period brought some of the Islamic communities to the brink of crisis<sup>114</sup>. In this crisis they felt a need, at times desperately, for reassurance about the basic values of tradition<sup>115</sup>.

In the Islamic countries the oil-shock induced a cultural and religious reassertion that had been incubating in the deep waters of Islam for decades. The moral base of Islam took the lead in this revival. Although the oil-shock may have been the catalyst, it cannot explain the resilience of the movement. Rather, with the increasing inability of the imported models of development (*laissez-faire* as well as planned socialism) to organise economic growth with equity, particularly in societies exposed to cultural aggression by the Western culture-industry (the media), it is natural that native traditions reassert themselves. Culture represents the beliefs and the values of a society, which in fact were the areas where imported development caused the greatest erosion. The revival of the Islamic tradition, then, is part of a cultural backlash, the reaction of the moral base activated by the stunted

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<sup>113</sup> L. Baeck, 'Ibn Khaldun's Political and Economic Realism', in L. Moss (ed.), *Joseph Schumpeter, Historian of Economics*, London, 1996.

<sup>114</sup> See G.E. von Grünebaum's essay, 'Das geistige Problem der Verwestlichung in der Selbstsicht der Arabischen Welt', in G.E. Grünebaum (ed.), *Studien zum Kulturbild und Selbstverständnis des Islams*, Stuttgart, 1969 ; A. Miquel, *L'Islam et sa civilisation*, Paris, 1977.

<sup>115</sup> A. Laroui, *Islam et Modernité*, Paris, 1987.

development process. The cultural revival of Islam is also visible in Islamic economics. For more than a decade now, a group of Islamic economists have been endeavouring to come to terms with economics and with the ethical tradition<sup>116</sup>.

## 2. Iran's culture bomb

There is no doubt that Iran's revolution was an assault against the Western development model launched by the Pahlevi dynasty<sup>117</sup>. For a great majority of the external observers, the revolution, as well as the succeeding triumph of the shi'a clergy, was a novel and unexpected unravelling of events. But specialists of the region should have known better. In N. Keddie's book of 1972, the following prophetic lines were published :

Despite all the inroad of the modern age, the Iranian national consciousness still remains wedded to Shi'a Islam, and when the integrity of the nation is held to be threatened by internal autocracy and foreign hegemony, protests in religious terms will continue to be voiced, and the appeals of men such as ayatollah Khomeini to be widely heeded<sup>118</sup>.

The opposition to the Pahlevi regime was not only religious. It was a broader amalgam consisting of the conservative ulema, the bazaari, the deprived urban masses, the nationalist intellectuals and the Muslims of the left. In the line of cultural opposition, the books of Ali Ahmad and associates on *gharbzadegi* (westoxication, or more literally 'weststruckness') have become classics of modern Persian prose. According to Ahmad, 'westoxication' is a worldwide disease affecting most of the developing countries, and not limited to Iran alone. Of all cultural institutions, education had, in Ahmad's view, become the most westernised. In a rambling prose he railed against the invidious 'diploma disease' or the emphasis on certificates rather than the real concern for true educational wisdom. One of his favourite theses was that machinism (technology) dominates westernised Iranian society. A better strategy would be the taming of the machines by Islamic culture. The literature on *gharbzadegi* can be considered a cultural version, produced in Iran, of the (socio-economic) dependencia theory.

Another inspiring figure was Ali Shariati. He was a specialist in Third World sociology and a devout Muslim. Shariati's analysis of the situation presupposes that the reader is familiar with the plight of Iran : its domination by an autocratic Pahlevi-capitalism that was destroying the Shi'a traditions and exploiting the popular masses. The opening lines of his book *Reflections of a Concerned Muslim* give a flavour of the analysis that follows : 'My friend, I live in a society where I face a system which controls half of the universe, maybe

<sup>116</sup> Z. Ahmed, 'Socio-economic values of Islam and their significance and relevance to the present day world', in *Islamic Studies*, 1971 ; see also S.N. Nagri, 'Ethical foundations of Islamic economics', in *Islamic Studies*, 1978.

<sup>117</sup> The bibliography on Iran's revolution is so abundant that the reader has only the difficulty of making the choice. For a good introduction see N. Keddie, *Religion and Politics in Iran*, London, 1983 ; C. Bernard & Z. Khalilzad, *The Government of God*, New York, 1984 ; D. Hiro, *Iran under the Ayatollahs*, London, 1985 ;.

<sup>118</sup> N. Keddie, *Scholars, Saints and Sufis*, Berkeley, 1972.



all of it... the system has converted us into empty pots which accommodate whatever inside them !' At the end of the book Shariati offers solutions to the predicament of his beloved country. He asserts that for the Iranian society, the path to salvation can only be the result of a revolutionary, revitalised shi'ism oriented toward social justice in the material organisation of life. In his view the moral base (the *shari'a*) of society is superior to a development path according to Western or marxist principles. The focal point of Shariati's plan for the revitalisation of Islamic society was the reactivation of its moral base : the religious inspiration of social justice in development.

The original moral impulse of the popular uprising in Iran had soon lost its novelty. And at times, the Islamic republic has become enmeshed in fanatical sectional fights as well as in gruesome wars. After the Iranian Revolution, all the lands of Islam were aroused. The widening gap between rich and poor, intense population growth, the spread of mass education, the lack of adequate opportunities for the young, and the rural exodus and the squalor of the crowded urban centres, created frustration and resentment amongst the forgotten groups. For them, authentic development was a dream that had not materialised.

### **3. Paradigm change in Islamic social sciences**

Some middle-eastern social scientists perceive the paradigm change as a process of *indigenisation*, since the avowed objective is the construction of a conceptual framework that reflects their own world view, with reference to lived cultural, social and economic experiences and aspirations. Indigenisation comes up against the slavish adherence to Western concepts and models by the postwar generation of social scientists. A great number the latter group were associated with national government services or foreign funded institutions. The authoritarian rulers of the Middle East, however, were only interested in securing scientific approval for their own policies. Their bureaucrats frowned upon independent and critical research work. And the foreign funded research institutes had led to the absorption of the local elite within either the Western or Soviet orbits, and to its theoretical subservience. In reaction, critical intellectuals railed against what can be called the *bedouinisation* of middle-eastern sociology and economics<sup>119</sup>.

In the period following the Second World War, this region, like the rest of the developing countries, embarked upon ambitious programs of industrialisation and urban growth, marked by a careless neglect of the rural sector and its population. For the rulers of the new states characterised by ethnic diversity and problematic borders drawn by the colonising powers, nation-building based on authoritarian rule had priority. In the countries blessed with huge petroleum reserves, the oil rent produced enormous wealth for only the happy few, resulting in great social and economic inequalities.

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<sup>119</sup> The Egyptian Sayyed Qutb, a militant of the Muslim Brotherhood, was one of the first to publish a diatribe against this intellectual degradation in his plea for re-Islamisation. The English translation, *Social Justice in Islam*, was published in 1970.

a. *Arab Third Worldism*

In the social sciences two currents of indigenisation can be distinguished, one secularist and the other Islamic. A more or less secularist and socialist branch evolved in the wake of the Third-Worldist ideology. This current was an offspring of the theoretical models on dependency, which formed the rallying cry of the Latin American centre-periphery school. Some were influenced by the neomarxist theory on imperialism and on unequal exchange. In the field of development, a few indigenisers drew inspiration from Ibn Khaldun, who was hailed as the founding father of the Arab social sciences.

In a series of seminars, the forms and aims of decolonisation in the middle-eastern social sciences were discussed. The failure of Nasserism, the deceptive course of the Baath-regimes in Iraq and in Syria, and the bleak prospects in the Maghreb countries, severely tested the theoretical tenets of Arab nationalism and socialism. This resulted in a state of crisis in the secular branch.<sup>120</sup>

b. *The Islamic branch*

In the 1970s an upsurge of loyalty to holy things became manifest. Due to the failures of nation-building, the ideals of the religious community gained precedence over those of the state. In the urban centres groups of young professionals and militants, by-passing the more passive and submissive members of the *ulama* (the lower ranks of the clergy), rediscovered Islam as the basic reference of collective identity. In reaction to the intellectuals in favour of the modernisation of Islam, they call for a re-Islamisation of society, that is, of its morals and economics. In effect, the Islamic resurgence symbolises the failure of modernisation in its most important manifestations : nationalism, secularism in education and culture, individualistic capitalism, socialism and marxism.

The trend toward the re-Islamisation of the middle-eastern social sciences represents the search for a better ordering of the world along the lines of social justice. In harmony with Islam's historical legacy, sociology and economics are perceived as the sciences of the *umma*, or of the community of believers ordered by the *shari'a*. This re-Islamisation has produced a series of publications in Urdu, Turkish, Persian and Arabic, the most important of which have been translated<sup>121</sup>.

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<sup>120</sup> S. Sabbagh & I. Ghazalla, 'Arab Sociology Today : A view from within', in *Annual Review of Sociology*, 1986.

<sup>121</sup> Mohamad Mannan, *Islamic Economics : Theory and Practice*, Lahore, 1970 ; Alhaji Ajijola, *The Islamic Concept of Social Justice*, Lahore, 1977 ; Mohamad Siddiqi, *Muslim Economic Thinking*, Jeddah, 1981 ; Syed Naqvi, *Ethics and Economics : An Islamic Synthesis*, Leicester, 1984 ; Shahrukh Khan, 'Political Economy of an Islamic System', in *Hamdard Islamicus*, Karachi, n° 4, 1985 ; Homa Katouzian, 'Shi'ism and Islamic Economics : Sadr & Bani Sadr', in R. Keddie (ed.), *Religion and Politics in Iran*, New Haven, 1985. For a critical evaluation, see Timur Kuran, 'On the Notion of Economic Justice in Islamic Thought', in *International Journal of Middle Eastern Studies*, 1989.

In the fundamentalist tradition it is repeatedly claimed that the emphasis on social justice is the basic characteristic of Islamic economics. Contemporary authors in this field give a great deal of importance to the religious prohibition of interest, to the theory of 'just' prices and wages, and last but not least to the Islamic forms of redistribution of wealth, such as *zakat* (tithing). A society can only achieve social justice through unremitting moral pressure for equality and fairness, but solely on the further condition that economic gains are to be 'earned' and their losses 'deserved'. As in all religions the ideal norms are far more lofty than reality, but in the Islamic lands the special attention given to the marginalised, the *mustadafin*, is a fact.

The challenge for Islamic social science is to exemplify the relevance of the religious norm or *shari'a* to present-day problems and to formulate workable models. The literature offers numerous alternatives by which social and economic relations may be brought into conformity with the principles of equality and fairness. Although the individual authors subscribe to the same basic philosophy, they formulate a variety of practical priorities and opinions. The Islamic cultural *jihad* presents a serious challenge to the Western development theories. Given the need for more social justice in world development, the revival of the Mediterranean tradition in sociology and in economics opens a promising perspective.

For the deprived masses, as well as for the intellectuals disenchanted with the secularising influences of modernisation along Western lines, Islam provides a frame of reference for their collective identity and cultural consciousness, rooted in their own history and tradition. It should be emphasised, however, that Islamic reassertion is not a reaction against modernisation *per se*, but only to the baleful aspects of Westernisation<sup>122</sup>. A return to Islam means a return to authenticity (*asala*). We may expect that the internal economic ordering of the Middle East, as well as its geopolitical matrix, will undergo important changes as a result of the reassertion of both the historical tradition and cultural symbols.

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<sup>122</sup> A. Ahmed and H. Donnan, *Islam, Globalisation and Postmodernity*, London, 1994.

## CHAPTER XV : THE IMPACT OF CULTURAL TRADITION ON RUSSIA'S POST-COMMUNIST DEVELOPMENT

### 1. The quest for Russian identity

The ambivalent relations between Russia and the West have been a *leitmotiv* of the Russian philosophical tradition and of nineteenth century literature<sup>123</sup>. Both resisted the ambition of Western culture to assert its own specific culture as a universal model. The Russian intelligentsia perceive Western developmentism as a cultural particularism that ignores its limits. Today's renaissance of Slavophile-oriented thought aspires to replace the failed Communist grand narrative of modernisation. The Slavophiles profess that their culture and development guarantee the realisation of the ideal unity between body and soul. This is a project of well-being also cherished by the West, but one in which it has so far failed.

Since the time of the tsar Peter the Great (1689-1725), Russia has been torn by ambivalent attitudes toward modernisation and Europeanisation. A small minority of westernisers (*zapadniki*) stood for a copy of the West. However, Russian intellectuals have always perceived their culture and religion as the 'better child' of Byzantium. At the end of the Middle Ages, Latin Europe chose the path of rationalisation, modernisation and economic development, whereas Russia, like the other cultures rooted in the Christian orthodox religion, maintained the social bonds and moral values of the Mediterranean tradition. In this choice they were following almost the same path as the neighbourly civilisation of Islam.

The slavophiles idealised the Russian village and equated capitalist industrialisation with Westernisation, and thus with the increasing penetration of Russia by European ideas and values. From the outset this fundamentalist ideology had a messianic and nationalistic flavour. In the 1860s, the great writer and socially minded aristocrat Leo Tolstoy wrote his novel *War and Peace* to celebrate the victory of the fatherland against Napoleon, his army and their revolutionary ideas. The slavophiles were staunch defenders of the Christian orthodox tradition of the pre-Enlightenment world. They raised a wall against the rationalisation and secularisation of society. In short, they were 'romantic socialists' living in the firm belief that their community-oriented development was superior to Western individualism and capitalism.

The populists or *narodniki* with an economic bent were well aware that industrialisation was necessary for Russian development, at least to keep foreign military powers at bay. The leaders of this movement separated themselves from the cultural slavophiles, and transformed their movement into an anti-urban populist party in defence of the peasantry. The *leitmotiv* of the debate was if, and under what conditions, the pre-capitalist society could perform the direct transformation to social communalism. This more positive attitude toward economic development gained a greater number of adherents after the

defeat of the Russian fleet by Japan (1905). Even after this though, the claim was made that Russian industry had to be less destructive of the peasantry and of local artisans. In the early twentieth century the socio-economically minded *narodniki* evolved into a populist movement, which was severely attacked by the upcoming radical marxists<sup>124</sup>. And after the great proletarian revolution they lost their grip on events. They lived on as an undercurrent, re-emerging only in the wake of Gorbachev's loss of control.

In the mainstream textbooks on economic development, as well as in the studies on the history of economic thought, the analyses produced by the slavophile movement have been neglected. It should be stressed that its major proponents professed an economic humanism, the main objective of which consisted in keeping the baleful influences of Westernisation and capitalism at bay. Its most important economic thinkers and pamphleteers of the tsarist period, like Chernyshevsky, Flerovsky, Vorontsov and Danielson, as well as the influential agrarian economist Chayanov of the Communist period, were more or less ignored by the development literature of the Western scientific establishment.

In the search for inspiration and ancestral models of thought on the functioning and transformation of subsistence economies, the stimulating research findings of the Russian scholar A. Chayanov, published originally in 1925, were rediscovered and re-interpreted within the African and Asian context. In the *Theory of the Peasant Economy*, Chayanov stated that the Russian peasant in the still large sector of the subsistence economy, worked according to a rationale unlike that of the *homo economicus* of Western neoclassical theory. His findings, supported by abundant statistical material, revealed that the peasant family would work for as long and as hard as necessary to obtain the subsistence level prevalent in their time. Once this level was reached, their labour input would start to drop sharply. In their primitive conditions the drudgery of work was too great a hardship to go beyond the natural wants. As noted earlier, in Aristotle's worldview, *chrèmatistikè* or the desire to accumulate was morally frowned upon. From the vantage point of the Russian peasant, the end-product of accumulation was not worth the hardship it required. The motivation was simply lacking.

In such a situation, both the amount of land which a peasant family holds and the intensity with which they work it is determined by the volume of the labour resources at their disposal, not by marginal productivity and utility considerations. The novelty of this theory lies in the statistical illustration of Chayanov, which demonstrates that the size and the intensity of use of peasant land holdings was determined by the size and constitution (children, dependants) of the peasant family. The demographic cycle of the peasant family (young children, followed by a period of young adult children, and ending with married-out adults) regulated the size of its available labour hands, and consequently of its

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<sup>123</sup> For more historical details, see the special number of *Soviet Thought*, 1992.

total disposable work volume.

Accordingly, the variation in the size of the plot that was worked and the volume of product (income) it yielded in a situation of abundant labour hands, was only a temporary phase of accumulation beyond the natural level. This peters out when the family size is reduced through the marriage of the adult children. In Chayanov's view, the temporary economic differentiation among the subsistence peasants does not induce class formation of a better-off peasant class (*kulaks*) on a permanent basis. This was a line of thought of capitalist as well as of communist theory. The communists, however, committed to the collectivisation of agriculture in order to avoid the class formation of the despised *kulaks*, carried the day.

Chayanov's penetrating analysis of the socio-cultural dialectics between economic motives and economic calculus, as well as his study of the *kulak*, were rejected by the scientific approach of the communist planners. But Chayanov's writings have influenced African populist regimes, such as Nyerere's *ujamaa* and other cooperative organisations in the developing world<sup>125</sup>. In our time, Solzhenitsyn is without doubt the most prestigious representative of the slavophile populists. Even in the heydays of communist rule, he championed slavophile ideals. Today, in the ideological turbulence of post-Communism, the slavophile revival is daily becoming more manifest in the Russian heartland.

## **2. The failed reform of post-Stalinism**

Since the implosion of the Soviet system and the political revolutions of 1989 in Central and Eastern Europe, the social sciences, especially economics and sociology, have been grappling with a new phenomenon, that of post-Communism. In order to understand the situation, a reference to the historical development phase of the society in which post-Communism emerged is helpful. Russia was, in fact, the first *developing country* of our age and the theoretical debates between the nineteenth century populists and the westernisers produced a broad range of literature on development of exceptional quality.

Orthodox marxist theory was silent on development strategies for backward countries as socialism was expected to emerge from mature capitalism. In the view of Marx, the system change toward socialism could only succeed after the productive forces of capitalism had been exhausted. From the standpoint of development theory though, the 'non-capitalist development' model of the Soviet Union was not as much understood as the establishment of orthodox socialism, but rather as a transformation ideology for *latecomers*. In the planned transformation of an agrarian society into an urban and industrial complex, the Stalinist take-off will be remembered as a pharaonic achievement. Only an authoritarian and central planning system could muster the muscle to push through

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<sup>124</sup> A. Gerschenkron, 'The Problem of Economic Development in Russian Intellectual History of the Nineteenth Century', in E. Simons (ed.), *Continuity and Change in Russian and Soviet Thought*, Cambridge, 1955 ; A. Wallicki, *The Slavophile Controversy*, Oxford, 1975.

<sup>125</sup> G. Schmitt, 'The Rediscovery of Alexander Chayanov', in *History of Political Economy*, n° 4, 1992.

the collectivisation of agriculture, and the *primitive socialist accumulation* of capital required for a process of industrialisation on the back of the peasantry.

After Stalin's death, Krushchev opened a development debate in order to steer the military-industrial complex into a more socially balanced system. The major problems under debate were the lagging agricultural production resulting in regular food shortages, the underdeveloped consumer industries, and the lack of flexibility inherent in the centralising planning model. Even this disciple of Stalin realised that the phase of primitive accumulation was over. The growth of total factor productivity of capital and labour required organisational changes in the planning system in order to solve the imbalances built into the dirigiste framework. In a dramatic party congress, the disciple began to revile Caesar in order to draw a new party line. The entourage of Krushchev, though, proved to be a lively but impulsive lot. They blundered and lost all credibility.

In the political debacle that followed, E. Liberman opened a new register in the development debate. Against the administrative decentralisation of the planning bureaucracy Liberman opted for the micro-economic solution. In his view, the units of production or the firms should form the crucial nexus in a system of decentralised decision-making. The market mechanism of supply and demand, sanctioned by profit signals, were to be the guidelines of Liberman's *market socialism*.

This radical program did not materialise, but it became apparent that the rigidity of the system could only survive thanks to some oiling by the (tolerated) shadow economy, that is, by the free market at the margin. Gorbachev's initiatives were made public with great fanfare, but they were very poorly implemented. They came too late and produced the well-known watershed. When the implosion materialised, the emperor was naked.

### **3. Cultural springtime aroused by glasnost**

Gorbachev's initiative of *glasnost*, still more than that of *perestroika*, unloosed the undercurrent of Slav humanism that had continued to live a sequestered existence even during the darkest hours of communist repression. Today, its revival is manifest. From 1986-1990, its underground literature poured out social, political and economic blueprints advocating novelty and change. Solzhenitsyn is their glorious banner from the underground period. In order to grasp its impact, we should realise that in Central and Eastern Europe the interactions between the culturally creative elements and society as a whole are different from and more trend-setting than in the West. In Russia, the great nineteenth century forerunners, such as Tolstoy, Turgenev, Dostoyevsky and Chekov, created a tradition in which the novelist voices the deep human emotions that are stirred by ongoing developments. They embodied the cultural matrix of the social discourse. Literature and the arts in general functioned as ideological hothouses *par excellence*, with forms of expression appealing to many. The novelist was at once priest and philosopher, as well as sociologist, political ideologue and economist in literary garment.

In the opening of the horizon for freedom of opinion elicited by *glasnost*, the literary periodicals provided the platform on which the longing for a new humanism was voiced, in kaleidoscopic fashion<sup>126</sup>. In these avidly read periodicals, the intellectuals described and projected the conflicts and contradictory projects which stirred the various layers and groups in society : the struggles between modernisation and retraditionalisation and between the centre and the periphery; the longing for autonomy, cultural identity and respect for the mother tongue against Russian linguistic imperialism; and the resurgence of mysticism and religion against stultifying secularisation. Under the authoritarian and ideologically invested regimes where the official language and blueprints were champions of worn rhetoric, art creatively translated the desire of the people for a more human and better world. Art became the instrument *par excellence* for incubating some sense of life in a situation of lost harmony. The existential themes of life, the conflict between the official system and the quality of life, the longing for human flourishing, the utopias and the nostalgia of human beings, were all exemplified and developed in art. In the background stood the messianism typical of the Slav culture. In the wake of *glasnost*, some of the most prestigious writers engaged in active politics, such as V. Astatjev, T. Ajtmatov, V. Rasputin, A. Rybakov, W. Belov and J. Jevchoutchenko, amongst others<sup>127</sup>. Another socio-cultural ferment was added when religion received greater freedom of expression. Many churches, mosques, prayer houses, monasteries and seminaries have been reopened, attracting a multitude of people.

Due to the partial disintegration of the official institutions or of social protection, the churches stepped into the vacuum with new social services of their own. In the elections for the various state councils many clergymen entered the legislative bodies as the people's deputies. Besides the resurgence of the pastoral mission for churches, we notice the emergence of a more socially engaged religion with a manifest ethical tone. Since most Caucasian and Asiatic republics belong to the Islamic confession, their geopolitical orientation is not directed toward Europe. One of the future trouble spots may arise from the latent conflicts between the different denominations within the republics, that is, amongst the Orthodox, Catholic, Muslim and Jew.

The increasing welfare gap between the socialist and the centrally planned economy of the Soviet Union and of its replica's in Eastern Europe brought the reformists to the fore. They initiated a partial rehabilitation of market calculus, competition, entrepreneurship and of profit making, but to no avail.

#### **4. Transformation versus development**

When the new regimes assumed power after the fall of the Communists, this novel emphasis on economic versus political rationality was radicalised by the neoliberal lobbies.

<sup>126</sup> A few of the trend-setting periodicals at that moment, conservative as well as 'new look', were New World, People's Friendship, The Flag, Youth, Ogoniok and Literatournaia Gazette.

<sup>127</sup> The Kirghizian writer Tchenguiz Ajtmatov and the Russian slavophile Valentin Rasputin were members of Gorbachev's Executive Council for a while (March 1990 - September 1991).



In some countries, the strategy of shock-therapy spearheaded by prompt privatisation and marketisation carried the day. In some cases the former *apparatchiki* became converts to the new creed and joined forces with the new elite. But in the euphoria of the beginning, the complex prerequisites of democratic bargaining and the high social costs of transition to the market were greatly underestimated. The collapse of the communist regimes was a well of rejoicing for the freedom fighters, but for a great number of people it caused material hardship and moral deception. The complexities of the transformation occurring in the post-communist regimes confirms our main thesis : development does not simply replace tradition; rather, its novel program is added to or superimposed upon the preceding tradition. As such, a society may retain even some of the legacies of the previous communist regime. The loss of moral meaning experienced by a growing number of people is transforming the naive euphoria into a so-called *post-totalitarian neurosis*. The development path of post-Communism is a novel and as yet untried one.

But in the relatively short period of systemic transformation from *planned to market economy* and from *authoritarian rule to some sort of democratic consensus*, the simplistic rhetoric of the experts that this reorientation and restructuring is merely a job for social and economic technicians has proven to be a technocratic myth. The development of a market economy is not only a technical question. History informs us that capitalism was able to emerge only after a fundamental change in values and norms. Moreover, even after the change in values it was kept within bounds by socio-political checks and balances. The creation of the Welfare State as a response to the harsh realities of early capitalism offers an illustration.

The history of economic development is a tale of market expansion and of the growing 'financiarisation' of the economy, with various political and cultural counter-movements in defence of society. As long as the civil society is too weak and thus unable to succeed in this protection, the post-communist societies in transition of the former Soviet Union and of Central and Eastern Europe will resort to ethno-cultural assertivity as a refuge.

## CHAPTER XVI : EAST ASIA'S DEVELOPMENT MIRACLES ?

### 1. Japan : A pioneer in Asiatic Modernity

Economics is a stern discipline which shies away from imaginative metaphors. Outsiders to the profession have called it a 'dismal' science. But when an exceptional success is in the making, or is already realised, economists yield to non-scientific, that is, to religious and animal vocabulary. Spectacular successes are labelled miracles and its actors are profiled to be dragons and tigers. The dynamics of industrial upgrading is compared to the flight of wild geese. The meteoric rise of Japan came as a shock to many in the West. And the miracles of a whole series of Eastern dragons and tigers have not only challenged the tenets of conventional development theory, but more importantly, they have altered the way the West perceives its own place in the world. Since the lands of Islam do not perform as well in the field of economic development, their religious revival represents to most observers a noisy but unproductive reaction of nostalgic fundamentalists. But East Asia's exceptional performance brings home the argument that non-Western cultures are able to realise economic successes. This new awareness acts as a catalyst, opening new horizons for development theorising.

Since the Enlightenment, and influenced in this by the colonisation drive of the nineteenth century, the scientific establishment of the West has habitually analysed and interpreted all religions and cultures of the world from a Western perspective. This perspective was claimed to be objective, unbiased and universal. All non-Western languages, arts, political and social organisations and economic systems, were analysed and interpreted by models and concepts elaborated in the West. Japan was one of the last Eastern countries to be forcefully opened to Western influences but also the most influential to proclaim its cultural identity and its historical uniqueness. The development literature on Japan is all the more interesting in that it analyses the transformation of an industrial latecomer to the position of 'number one' in some industrial sectors. This initiated the 'learn-from-Japan' boom of the 1980s<sup>128</sup>. The deterioration of America's competitive edge *vis-à-vis* some important sectors of Japanese industry gave rise to a wave of militant nationalism and cultural chauvinism in the 'land of the rising sun'. Its most radical exponents indulged in a denigration of Western culture and rejoiced in the so-called decline of the West<sup>129</sup>. A number of authoritative voices in the development debate of Japan impute that the merits of the model are more attributable to cultural and institutional factors (like government policies, management styles, business strategies and the family base of social order), than to the play of the free market. In the field of industrial organisation, Japan, conventionally labelled as a brilliant 'imitator', surprised the world with a flexible and successful

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<sup>128</sup> R. Mouer and Y. Sugimoto, *Images of Japanese Society*, London, 1990 ; A. Boscaro, F. Gatti and M. Raveri, *Rethinking Japan*, Japan Library Ltd. (Folkestone), 1990 ; A. So, 'Japan as number one', in *Asian Profile*, n° 3, 1990.

<sup>129</sup> B. Stevens, 'Ambitions Japonaises : Nouvel Asiatisme et Dépassement de la Modernité', in *Esprit*, July, 1995.

upgrading of its industrial activity and with a managerial shift from Fordism to Toyotism. With the sectoral transformation of its industry toward higher levels of added-value, Japan stepped up its competitive breakthrough in world markets. With the introduction of a more flexible and differentiated system of production, 'just-on-time' its managers transformed the logic of mass production.

## 2. The Flying Geese Paradigm

At the end of the 1950s when growth had taken off at an unprecedented speed, the sustainability of its exuberance became the central topic of Japanese economic debate. Miyohei Shinohara, one of the most influential interpreters of Japan's development, explained the miracle on the basis of a few cardinal themes, all of which have subsequently been echoed by other scholars. The five most important factors are the stimulating effects of the geopolitical context in its postwar recovery; Japan's favourable terms of trade; the country's industrial dualism (the synergetic coexistence of a modern sector paying relatively high wages and a great number small workshops paying low wages); and last but not least an exuberant propensity to absorb foreign technology. All this in combination with a 'catching-up' syndrome that nurtured the willingness to transform and upgrade the industrial structure to higher levels of added-value in a flexible way<sup>130</sup>.

The interpreters with an institutionalist-oriented inclination argue that the qualitative changes in the industrial economy have been assisted and accelerated by conscious and adequate policy decisions. Saburo Okita, an able economist who also employed his talents in a successful administrative career, was the intellectual leader of this line of thought. While Minister of Foreign Affairs, he opened a new register that was to become a theme echoed later, namely, that Japan could serve as a model for the developing nations of East Asia<sup>131</sup>. Whether it was the active support of government and administrative guidance (more specifically of MITI: the Ministry of International Trade and Industry) that had played the decisive role, or the innovative drive of Japan's entrepreneurs, remains a matter of controversial debate. But very few commentators contest that Japan's industrial officials frequently intervened in the free market mechanism with appropriate guidelines and policies. With their aggressive export strategy oriented toward a deliberate conquest of foreign markets, they often ran counter to the conventional notions of comparative advantage.

In my view, one of the most original thematisations on industrial strategies for latecomers like Japan and the East Asian region was formulated in the early 1930s by Kaname Akamatsu. He profiled his theory with a telling animal metaphor, namely the 'flying geese pattern of development' (*gankô keitai hattenron*). In fact, Akamatsu's model was a new version of David Hume's thesis on the migration of economic opportunity, but

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<sup>130</sup> M. Shinohara, 'Patterns and structural changes in Japan's postwar industrial growth', in L. Klein and K. Ohkawa (eds), *Economic Growth: The Japanese Experience since the Meiji Period*, Tokyo, 1968.

<sup>131</sup> S. Okita (ed.), *The Developing Countries and Japan: Lessons in Growth*, Tokyo, 1980.

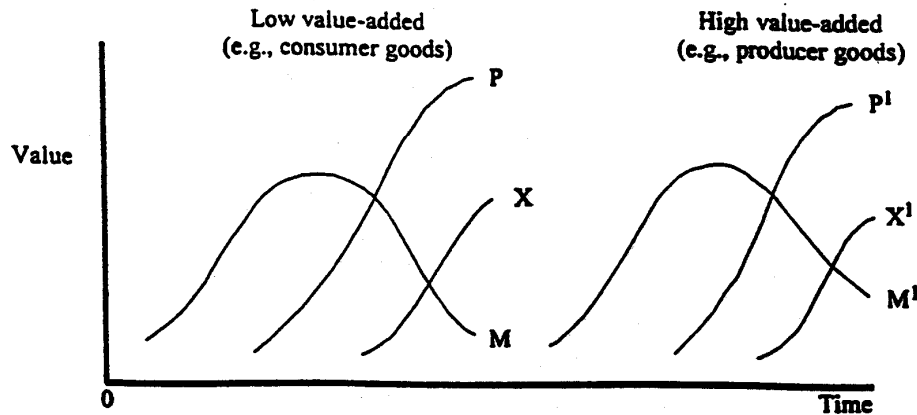
viewed from the standpoint of very active 20<sup>th</sup> century latecomers to industrialisation <sup>132</sup>. During World War II though, his theorem was used to legitimise the Japanese Greater Asian Co-prosperity Sphere. This form of intellectual propaganda tarnished the model as a catalyst of outward expansionism. The theory explains how latecomers, after a first phase of importing the up to then unknown manufactures by a strategy of import substitution, launch suitable labour-intensive industries to produce these products themselves for the home market. As a rule the first phase in which local products have to compete with imports, will by no means be easy for the latecomer, especially when the amount of imported foreign goods grows greater. And Akamatsu highlights the social implications in some detail. The import of factory made goods competes with the local handicraft activities, thus driving craftsmen out of work. This creative destruction has been observed in most developing countries. But gradually a local industry comes to bloom. The second phase of import substitution may be due to one or more of the following beneficial conditions : low wages, cheap raw materials and/or an expanding local market. In order to create strong local industries, its entrepreneurs should engage in competition with the imports of the advanced countries. Nationalism and protective measures make the local producers soft and inefficient. In Akamatsu's view, international trade is a most important vehicle in the transfer of new goods and technology across countries.

After a short phase of import substitution during which production expands rapidly and qualitative upgrading takes place, the local product is transformed into an export item, while imports and domestic manufacture shift toward new, more sophisticated and higher value-added industrial goods. At the start, the products are simple technology goods manufactured by low-wage producers, but gradually the quality is upgraded. The procedure is applied repeatedly, with continuously new and upgraded industrial products. Akamatsu's original work was based on the development sequence of Japan's textile industry. At the start these products were imported. In a following phase a local textile industry was set up. This resulted in import substitution. In a third phase Japan's textile industry was thriving on production for exports. Later the upgrading scenario was repeated with other industrial products. When this sequential career of Japan's industrial products (imports, domestic production, exports) is presented in a graphic form, it produces a pattern analogous to a flying formation of wild geese (figure 1).

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<sup>132</sup> The original text and the subsequent publications of Akamatsu on the subject are written in Japanese, with the notable exception of two articles in English : 'A Theory of unbalanced growth in the World Economy' in *Weltwirtschaftliches Archiv*, n° 2, 1961 and 'A Historical Pattern of Economic Growth in Developing Countries', in *The Developing Economies*, n° 1, 1962. For an insightful historical contextualisation of Akamatsu's paradigm, we refer the reader to P. Korhonen, 'The Theory of the Flying Geese Pattern of Development and its Interpretations', in *Journal of Peace Research*, n° 1, 1994.

**The flying-geese paradigm : an illustration**  
**Figure 1 : Akamatsu's "fundamental" model of industrial growth**



The basic idea of the paradigm is that latecomers in industrialisation, in a context of open-economy, climb step by step in a process of upgrading, since they are able to capitalise on the learning opportunities made available by their international relations with more advanced nations. Akamatsu's analysis provides a generalised scenario of Japan's catching up mechanism. In the postwar development strategy of Japan the most promising industries were profiled as 'sunrise' industries which merited official support. Older industries which were losing their comparative advantage in the local and/or the international market were downgraded as 'sunset' industries. They lost state support and were gradually relocated in the less developed countries of East Asia. Two of Akamatsu's disciples, Kioshi Kojima and Terutomo Ozawa, adapted his paradigm to the TNC-context with direct investment (see its graphic form in figure 2), in which Japan's restructuring of manufacturing and exports is accelerated by the outward drive of its transnational corporations worldwide, and in the East Asian developing region in particular.<sup>133</sup>

Up to the beginning of the 1990s Japan's success owed much to its ability to restructure continuously its manufacturing sector toward more productive and international competitive industries. The light and heavy industry starters built up before the war (such as textiles, machinery and chemicals) served as a launching pad for the postwar industrial upgrading toward higher value-added manufacturing in a manner consistent with the country's changing level of technological sophistication. Looked at from the standpoint of comparative advantage, Japan's industrial development was relatively unbalanced. Government policy and the entrepreneurial response by the leading companies concentrated on industries and products whose income-elasticity and world demand was

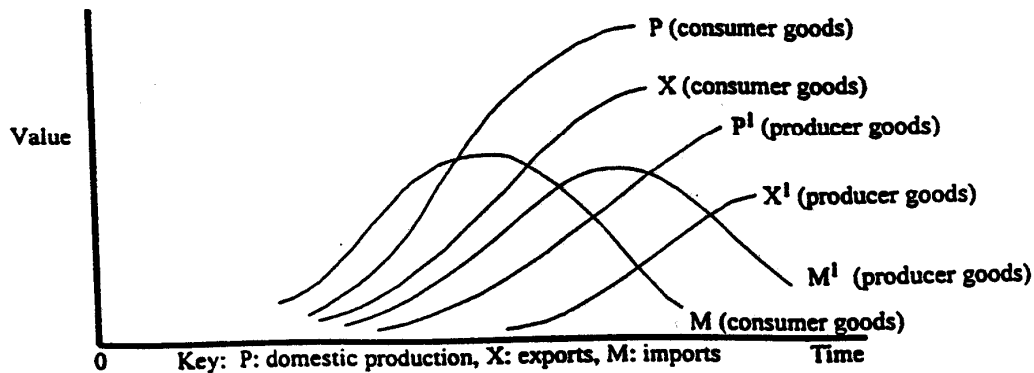
<sup>133</sup> K. Kojima, *Direct Foreign Investment : A Japanese Model of Multinational Business Operations*, London, 1978 ; K. Kojima and T. Ozawa, 'Toward a Theory of Industrial Restructuring and Dynamic Comparative Advantage', in *Hitobashi Journal of Economics*, n° 2, 1985 ; T. Ozawa, 'The flying geese paradigm and tandem growth : TNC's involvement and agglomeration economies in Asia's industrial dynamism', Paper presented at the AIB meeting, Seoul, 1995.

high. When these industries were losing their advantage of low wage-costs, the industrial establishment was swift to rationalise domestic production through technological upgrading and for the less competitive ones to start relocation in Southeast Asia.

According to the upgrading sequences worked out by Kojima and Ozawa, Japan's foreign direct investment abroad (especially in the East Asian developing countries) stepped up its own restructuring process of moving up in the added-value hierarchy. In a deliberate effort of scaling down domestic industries losing their competitiveness, Japanese manufacturers of labour-intensive goods relocated production to the neighbouring developing countries. This transfer abroad of "sunsetting industries" permitted a re-deployment of labour toward innovation-intensive activities with a higher added-value and with a sharper competitive capacity in the world markets. In the 1980s automobiles and electronics accounted for about two-thirds of the country's manufactured exports. But, halfway the 1980s Japan moved toward the R & D-intensive activities. This and the building up of an efficient financial sector appeared to be more difficult than foreseen. In their most recent work Kojima and Ozawa have extended the flying-geese-paradigm to a group of neighbouring Asian developing countries, with Japan as the lead-geese and the dragons and especially the young tigers (Thailand, Malaysia, Indonesia) as follower-geese. This is in part a justification of the positive development effect of direct investment by Japanese transnational corporations in the region. In the most recent industrial strategy in which the development of industries is assisted by transnational corporations (TNC-assisted industrialisation) both the production curve and the export curve for producer goods will occur almost simultaneously in the earlier stages of industrialisation. The TNC-assisted mechanism of industrial re-deployment makes possible that the time-lag of the sequence from consumer goods to more sophisticated products and their exports is shortened (figure 2).

Japanese direct investment in the developing dragons of East Asia has been described by Kojima and Ozawa as a move toward 'tandem economic development' in which Japan as the lead goose organises a regional pattern of interactive industrial restructuring. The regional design of Japanese investment in East Asia involved a regional division of labour based on an industrial and locational hierarchy according to the flying geese model. The regional restructuring implies that domestic investment withdraws gradually from sectors suffering from loss of competitiveness and whose production is relocated to economies where production is more advantageous in order to supply both foreign and home markets. But, even in Japan, once upgrading had reached economic maturity, the speed of restructuring slowed down, because moving up in the hierarchy of technology increasingly depended on creative innovation. This slowing down may be the entrance of Japan in a new stage of development, namely the phase of post-industrial maturity with lower growth rates and higher unemployment.

**Figure 2 : TNC-cum-home-government catapulted growth of a new industry  
(time-compressed growth)**



### 3. The cultural line of thought

In the cultural line of thought we have chosen two authors from very different backgrounds, namely, Michio Morishima who has a well-founded reputation as a professor of Cambridge University, and Yasusuke Murakami, an economist with a nationalist profile and a respected essayist. Morishima's book on Japan's economic success was a complete departure from his earlier mathematical methodology<sup>134</sup>. But his message is very clear: the success of Japan is due to a synergetic match of Western technology with the Japanese value system. Abandoning the claim of mainstream economics that there is only one 'universal' model of analysis, he opted for the postmodern stance of cultural relativity. In his book he postulates that economics, being a behavioural science, is a cultural construct. In accordance with his thesis on the historical and cultural variety of economic systems, Morishima explains the peculiar path of Japan by religious determinants, and more particularly, by the combination of Confucianism with Scientism.

Yasusuke Murakami, also a former mathematical economist, became a convert to a new brand of non-marxist political economy. This is an approach that takes into account both the *homo economicus* and the social values and institutions. Murakami's analysis emphasises the declining efficacy of Western values to meet today's economic challenges, and the better performance of Japanese values in the context of late capitalism. This better performance is the result of the cohesive force of the Japanese family which was transposed to institutions like the large firms and even to the state. According to this Japanese analyst, the decline of the West is due to its excessive individualism. Murakami's approach follows the Weberian view that the value orientations of the economic agents are more important factors in accounting for development than the material prerequisites, such as capital accumulation, as the marxists had proclaimed. But

<sup>134</sup> M. Morishima, *Why has Japan succeeded?*, Cambridge, 1982.

Murakami puts the Weberian matrix of value orientated action on its head. Whereas in Weber's *Protestant Ethic* rationalism and individualism acted as a motor to break the traditional loyalties of custom, in Murakami's approach social cohesion and group solidarity, together with the societal discipline of Confucianism, formed the gist and the cement of Japan's outstanding performance.

Of course the Japanese miracle also has its shadow side. The world shaped by modern science, technology, business, industry and urban agglomerations is, for the older generation at least, a strange world. It is very different from the one in which they have grown up. It is a world which tends to erode the sacred pieties, morals and rituals inherited from the past. The younger generations, on the contrary, are more willing to march with the worldwide trend of Westernisation. The culture shock induced by modernity and the disenchantment that resulted, however, generated an authentic counterwave in Japan that proclaims the uniqueness of Japan (*nihonjinron*). The concept of *nihonjinron* is all pervasive. It is present in the arts, literature, the human sciences (sociology, political science, psychology and economics) and in the communication channels that reach the masses, like the press, movies, television and commercial publicity. It is a reaction against the historical and ideological bias inherent in Western modernisation theory. *Nihonjinron* makes the nation and its people aware of Japan's distinctiveness in worldview, in its socio-political organisation, cohesiveness and, last but not least, in its work ethic. The wave of the 'Japaneseness of Japan' is also an expression of cultural nationalism, or worse, of chauvinism. In its most radical form it denies the foreigner the ability to understand the Japanese culture. This is a rather extravagant thesis. In a less radical version, *nihonjinron* hammers out the argument that in the ongoing process of globalisation, the least permeable area seems to be that of *understanding culture*. According to the culturally inspired authors, the Western modernisation theories went astray both by ignoring culture and by the evacuation of the ethical dimension.

One of the most respected political scientists of the postwar period, Masao Maruyama, opined that beneath the high-growth development (of Japan and other developing nations), there lay an historical and human experience that merits more careful analysis. It is a human experience that does not coincide with the theory of modernisation and rationalisation such as formulated primarily by Western social scientists<sup>135</sup>. With him, his most influential colleagues, Shigei Toyama and Takeshi Tshida, postulate that 'postmodern' development theorising should do well by emphasising the particular, the cultural, the ethical and the human purpose of development into the picture. According to this line of thought, the basic question is : 'development for what ?'.

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<sup>135</sup> The reader interested in the modernisation debate in Japan may consult the interesting bundle of essays edited by M. Masao and H. Harootounian in *The South Atlantic Quarterly*, n° 3, 1988 ; M. Maruyama, *Essais sur l'histoire de la pensée politique au Japon*, Paris, 1996.



#### 4. The development debate on the dragons and tigers

The economic growth performance of a first tier of East Asian countries called dragons (South Korea, Taiwan with the city states Hong Kong and Singapore) followed by a second tier of Southeast Asian disciples called tigers (Thailand, Malaysia and Indonesia) together with the spectacular emergence of China, have produced a watershed of essay-writing on the successive waves of miracles. Indeed, in the course of the last two decades this region realised records in economic growth that were never heard of before. This new wave of thematisation produced different schools of thought on the subject with the neoliberal canon in the lead. The thematisation spiralled into a full-fledged scholastic debate when the World Bank joined the chorus with a vision of its own. In two influential studies, namely the *Development Challenge* (1991) and the *East Asian Miracle* (1993) this prestigious institution formulated what was later referred to as the World Bank's canon<sup>136</sup>. Its central principles are :

- (a) On the domestic side : an increase in the role of the free markets and private enterprise with a considerable diminution in state intervention. Hence, the World Bank encourages initiatives such as privatisation, deregulation, financial liberalisation, reduced taxation and other incentives on the supply side of the economy. The core of the canon is a “market-friendly” approach to development.
- (b) On the global scale, the World Bank's canon stresses the benefits of a close integration in the world markets. In practice this requires policies leading to import liberalisation, export promotion, keeping domestic prices in line on the basis of adequate exchange rates or ‘keeping prices right’.

The authors of *Development Challenge* recognise that the international economic context may influence the growth performance, but their main argument is that domestic policy matters far more. In reaction against the neoliberal orthodoxy that preaches a radical free play of market forces with an almost complete retreat of the state, the authors of *Development Challenge* suggest that government intervention may be helpful on the condition that it is “market-friendly”. This means that government authorities remember the following working conditions :

- (a) Intervene reluctantly ; that is let markets function unless it is demonstrably better to step in.
- (b) Apply checks and balances in accord with the discipline required by the norms of international and domestic markets.
- (c) Intervene openly and transparently ; this is, keep the needed intervention subject to incentive norms rather than to official discretion.

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<sup>136</sup> World Bank, “The Challenge of Development” in *World Development Report*, New York, 1991 and World Bank, *The East Asian Miracle*, New York, 1993.

The report acknowledges that there had been considerable government intervention in the postwar miracle of Japan, as well as in the successes of South Korea and Taiwan. But it stresses the point that its market-friendly approach has been conducive to the creation of a suitable climate for private enterprise and to a high and appropriate level of human capital formation by education. The thesis of the DC-report was clearly that the more open an economy, the more efficient the degree of competition and the higher its investment in education, the greater would be its capacity for overall economic growth. Some influential but heterodox thematisers who had an intimate knowledge of the region's development path, openly voiced their critical comments and elicited the World Bank's research department to abandon its scholastic stand and to probe deeper into the empirical evidence of the miracles.

In the 1993 report on the *East Asian Miracle*, a great deal of discretionary government intervention is acknowledged ; we quote the report on page 6 :

“Policy intervention took many forms : targeted and subsidised credit to selected industries, low deposit rates and ceilings on borrowing rates to increase profits and retained earnings, protection of domestic import industries, the establishment and financial support of government banks, public investment in applied research, firm- and industry-specific export targets, development of export marketing institutions, and wide sharing of information between public and private sectors. Some industries were promoted while others were not”.

Moreover, the miracle study underlines that the high performing Asian Economies (HPAEs) are unique in combining a rapid growth rate with more than usual equality in income distribution. The first group, this is the dragons South Korea and Taiwan, were the most equal. But the central theoretical argument is that economic growth is determined essentially by the total factor productivity (TFP) of capital and labour. The high performing group of the region differs from other developing economies in the optimisation of the production factors which economists have traditionally associated with economic growth :

- (a) High rates of investment, exceeding 20 % of GDP, supported by rapid growth in domestic saving.
- (b) High and rising endowments human capital due to universal and primary and secondary education.

However, the peaks of the TFP-variable is thought to be the result of efficient economic policy : the degree of openness of the economy, the extent of competition in the product and factor markets and the rate of accumulation on account of deliberate investment in physical and human capital. The underlying chain of causation is that competition and education promote technical progress, with resulting TFP-growth and hence economic expansion. The “free mobility of people, capital and technology and the free entry and exit of firms” are regarded to be particularly conducive to the spread of knowledge and

technical change. The high performing Asian economies fall into two distinct groups :

- (a) The productivity-driven economies - Japan, South Korea, Hong Kong, Thailand and Taiwan - who registered relatively higher TFP-growth rates and higher contributions of TFP to output growth.
- (b) Investment-driven economies - Indonesia, Malaysia and Singapore - who conformed to the typical developing country pattern of relatively low TFP-growth rates and small relative contributions of TFP to output growth.

The 1993-report is rich in empirical data who support the macro-economic basics of neoclassical growth theory : the role of high saving and investment rates, the impact of expenditure on education (human capital) and the dynamics resulting from export-orientedness. The chapters on state intervention and on industrial policy offers already a more relaxed view in comparison with the 1991-report, but is still ideologically biased in favour of market-friendliness. However, the real story of policy guidance by the Asian dragons fails to support the Bank's canon on the play of the free market. In Japan, South Korea and Taiwan, the phasing out of obsolescent industries and the support of sunrise activities has often required considerable government intervention in order to assist the restructuration leading to upgrading at home and at relocation abroad. A close look at the East Asian experience also informs us that the states of these countries have played an important role in industrial policy and that the policy. The policy makers have clearly demonstrated a preference for 'strategic' rather than 'close' integration in the world market. The controversies are still waging between the adepts of neoliberalism who explain the high growth rates by the free play of the markets (this is by getting domestic and international prices right) and those who impute the successes to the deliberate strategy developmental states. In the following lines we offer a schematic survey of some heterodox viewpoints.<sup>137</sup>

Alice Amsden's book on South Korea is an original and stimulating study, representative of the new wave of political economy and institutionalism<sup>138</sup>. In her view one of the basic characteristics of 'late' industrialisers is that they advance 'through learning'. In the absence of a domestic tradition or capacity in the research of new technologies they borrow, absorb and adapt to their own growth requirements the industrial policies, the innovations and the management techniques of performing forerunners. The core of Korea's success was not so much education or export orientation but shopfloor productivity. The interconnected factors behind East Asia's micro efficiency extend over a

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<sup>137</sup> T. Banuri, *Economic Liberalisation : No Panacea*, Oxford, 1991 ; A. Amsden, 'Diffusion of Development : The Late-Industrializing Model and Greater East Asia', in *The American Review*, n° 2, 1991 ; R. Wade, 'East Asia's Economic Success : Conflicting Perspectives, Partial Insights, Shaky Evidence', in *World Politics*, n° 2, 1992 ; F. Godement, *La Renaissance de l'Asie*, Paris, 1993 ; The periodical *World Development* published special number on the subject : n° 4, 1994 ; A. Singh, 'How Did East Asia Grow So Fast ? Slow Progress Towards an Analytical Consensus', *Discussion Papers*, UNCTAD, n° 97, 1995 ; J. Paulet & I. Mor, *L'Asie et la croissance*, Paris, 1996.

<sup>138</sup> A. Amsden, *Asia's Next Giant : South Korea and Late Industrialisation*, New York, 1989.

vast array of domains and institutions, from the shopfloor level to the state. In East Asia, beginning with Japan, there has been a tendency for state subsidies to be dispensed according to the principle of reciprocity in exchange for high performance standards with respect to output, exports and last but not in the least by industrial upgrading through R & D-absorption. East Asian late industrialisation is not only characterised by a high degree of labour discipline but also by the Weberian ascetism and discipline of the capitalists and managers.

Subsidies were used as stimuli to realise higher productivity levels in the sunrise industries with a promising export performance. Japan had learned from the West ; South-Korea learned from Japan. They both constructed a similar set of institutions to respond to the handicaps and the advantages of lateness. In particular, they developed an entrepreneurial state sustained by managerial bureaucracies and diversified business groups. According to the author, the low-wage advantage is not enough to spur development. All in all, Amsden's approach is more an institutionalist exercise that comes closer to the real story in comparison with the Bank's report. The East Asian pattern as she sees it may be summarised as follows : 'industrialisation through learning ; learning through reciprocity between government and diversified business groups ; reciprocity involving price-distorting subsidies in exchange for performance ; synergy between domestic upgrading and in combination with the growth in world market demand. The above mentioned study by Singh analyses the export orientation.

With a clear emphasis on the socio-political aspects of late industrialisation, Stephan Haggard thematises on the different performance of East Asia in comparison with Latin America<sup>139</sup>. The author organises his analysis on four kinds of factors that bear on the policy choices : the international context, domestic coalitions between political parties and interest groups, political institutions and the influence of ideas. However, the author does not miss the point that the geopolitical context of East Asia, with an erstwhile aggressive communist China next to it, has made that the region received relatively more attention and foreign aid (transfer of technology included) than Latin America.

As far as the strength of the social groups is concerned - agricultural interests, labour and business - the Latin American NICs had to face relatively more articulate and organised groups in comparison with East Asia. There the intermediaries of civil society were more subdued and/or more in harmony with the official development policies. In the domain of ideas on development, the Latin American elites were influenced by structuralist thought - the ECLA doctrine and the dependencia school - while those of East Asia followed a more pragmatic course. In the analyses of the here quoted thematisers on the subject, but also of those referred to in their bibliography, a central theme is repeated over and over again as a refrain ; namely that the state has to direct society toward the goals of development but in order to be efficient the state should also be disciplined this

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<sup>139</sup> S. Haggard, *Path ways from the Periphery : The Politics of Growth in the Newly Industrialising Countries*, Ithaca, 1990.

growth-oriented society.

To conclude the institutionalist perceptions of the East Asian successes, we refer to the interesting study by the political scientist Ziya Onis on '*the developmental state*'<sup>140</sup>. Japan served as a prototype and the dragons and the tigers were inspired by this model. Summarily a development state may be profiled as follows: 'economic development defined in terms of growth has pride of place, while productivity and competitiveness, constitute the foremost and single-minded priorities of state action. Conflict of societal goals is avoided by the absence of an undue commitment to equality and social welfare in the early stages of growth. High performance is a standard of behaviour and external examples provide the state elites with models for emulation. There is an underlying commitment to private property and market. The market mechanism is assisted by instruments and institutions steered by a small-scale, economic bureaucracy which is recruited from the best managerial talent in the system. In development states the single most ambition is winning the context of growth. In this climate of emulation the professionals who can assure a high score enjoy prestige and power. Their autonomy of action is thus embedded. In such a system politicians reign but the professional bureaucrats rule'<sup>141</sup>. Close institutionalised links are organised between the elite bureaucracy and private business for consultation and cooperation. The officials keep stringent performance requirements in return for the provided subsidies. This guidance provides results in a different but more efficient production and investment profile than would result under the free market system. These stimuli also accelerate the restructuring toward upgrading. Crucial to the good functioning is a significant degree of institutionalised interaction and dialogue between the state elites and autonomous centres of power within civil society. The development state keeps a tap not only on popular demands but also on the eccentricities of capital.

Of course, this ideal type of the development state has not been realised in all its aspects, even with the best performers of East Asia. Even the highly disciplined tigers are not free from flaws. These flaws became in due time more visible with the tigers of Southeast Asia: Thailand, Malaysia and Indonesia. More than their predecessors, the second tier group was involved in a regional interlinked pattern of TNC-assisted restructuring and industrial upgrading along the 'flying geese pattern'<sup>142</sup>. Since the 1980s an acceleration in foreign direct investment occurred, this in combination with the emergence of a local financial bourgeoisie. However, a growing number of the financial intermediaries got gradually more engaged in speculative activities. The growing financierisation of their

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<sup>140</sup> Z. Onis, "The Logic of the Development State" in *Comparative Politics*, October, 1991.

<sup>141</sup> The impact of the relative autonomy of the entrepreneurial part of the bureaucracy for the sustainability (the so-called 'embedded' autonomy) of high growth is a favourite theme with the institutionalists; see also the interesting study by P. Evans, *Embedded Autonomy: States and Industrial Transformation*, Princeton, 1995.

<sup>142</sup> See for more analytical underpinning empirical evidence of this statement, the following recent reports: UNITED NATIONS, *World Investment Report*, 1995 and UNITED NATIONS, *Trade and Development Report*, 1996. Both reports illustrate the mechanics of the 'flying geese' model in East and South-East Asia.

economies required sound functioning bank systems and capital markets to keep the eventual run-away speculative bulbs in bounds. Restructuring and upgrading in this domain lagged and unsound financial pyramid resulted. The miracle-economies whose developmental state machinery was designed for 'industrial' growth flawed in the superstructure of its 'financial' management. Like Japan had experienced a financial crisis in the beginning of the 1990s, the industrial miracles of the region went through a financial shock wave in the second half of 1997. Thus, also wild geese, are subject to the historical law of the rise and fall in growth rates, especially when discipline gives way to (wild) financial speculation.

## 5. Old and new theoretical questions

In the debates on the experience of industrial policy and of selective intervention in Japan and in the tiger economies of Southeast Asia some reputed scholars of growth theory came to the conclusion that the "visible hand" of government had a major and positive role in all of these cases. A judicious package of interventions succeeded in most cases in markedly changing the structure and performance of each of these economies in their development drive. Questions of increasing returns to scale, externalities, imperfect information and co-ordination costs were pointed out as major sources of market failure demanding and justifying specific forms of government intervention.<sup>143</sup>

This insight led prestigious economists like Krugman and Romer to initiate a revival of old issues in development theory. During a seminar organised by the World Bank they called for a "counter-counter-revolution" legitimising some of the writings of the pioneers like Rosenstein-Rodan, Nurkse, Prebisch, Myrdal and Hirschman<sup>144</sup>. After some blunders of the neoliberal counter-revolution against cases of successful voluntaristic industrial policy, economists and policy-makers had reached to a better understanding of development problems in the new context of the 1990s. More so than the pioneers of the early postwar period the new growth theorists are conscious of the hazards of a badly designed public policy package and of the high cost that countries have to pay for excessive intervention and protectionism. On the other side they also agree with their predecessors that market forces alone are insufficient to attain the desired industrial restructuring that leads to new technology and higher-value activities. New forms of intervention are needed in order to attain such a transition in a reasonable span of time. Inspired by the pioneers and in reaction against the neoliberal version some of the leading modern growth theorists suggest that public policies, when appropriately implemented, have been and still are fruitful. In this counter-revolution against the mainstream orthodoxy a group of revivalists underlined the importance of institutional variables and the need for co-ordination efforts *vis-à-vis* decentralised market forces. This in order to steer the economy toward a *socially* satisfactory allocation of resources.

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<sup>143</sup> J. Stiglitz, "The New Development Economics", in *World Development*, n° 2, 1986.

In Latin America similar voices were heard. They opined that it would be a misleading simplification to argue that the import-substitution strategy has nothing left behind except outmoded industrial plants and rent-seeking entrepreneurs, incapable of functioning in a competitive international environment<sup>145</sup>. There the heterodox approach was a modernised version of the “structuralist school” formerly institutionalised by CEPAL. The heterodox approach has been associated with the ideas on non-recessive adjustment to the debt crisis of the 1980s. According to these tenets, indebted economies should not undergo inept adjustment processes that imply setbacks to economic development and incur politically unfeasible social costs. In Brazil the critical press epitomised the IMF-therapy with the telling metaphor of “*armadilha da recessão*” which means the trap for a mouse. However, also in Latin America the political constituencies in favour of heterodoxy grew thinner. And in the 1990s the orthodoxy inspired by neoliberalism, backed by the Bretton Woods institutions gradually became hegemonic.

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<sup>144</sup> P. Krugman,, “Toward a Counter-counter-revolution in Development Theory” and P. Romer, “Strategies for Economic Development : Using Ideas and Producing Ideas” in *Proceedings of the World Bank Annual Conference on Development Economics*, Washington, 1993.

<sup>145</sup> J. Fanelli, R. Frenkel & R. Rosenwurch, *Growth and Structural Reform in Latin America Where Do We Stand ?* CEDES, Buenos Aires, 1993 ; G. Schwartz, “Stabilisation Policies Under Political Transition : Reform versus Adjustment in Brazil”, in *The Developing Economics*, March, 1990.

## CHAPTER XVII : GOOD GOVERNANCE FOR SUB-SAHARAN AFRICA

### 1. The Patronage Logic of the African State

In Africa more than elsewhere in the developing world the geopolitical changes of the 1990s came as a shock with far-reaching political and economic consequences. The internal and external pressure for democratisation and the call for economic reform engendered a novel stream of thematisation. The new canon was that political pluralism would stem the tide of decline, engender institutional and societal reform and pave the way to sustained economic growth. In the African context, however, the commitment of the opposition parties, to transform the patrimonial logic of the predatory state toward capacity growth, seemed to be more ambivalent than most external godfathers wished. In the 1990s the Western governments, multilateral aid organisations, private creditors and other donors intensified the external pressure for democratisation. In some cases where the commitment to political liberalisation with reform was rather weak, like in Habyarimana's Rwanda and Mobutu's Zaïre, the state machinery was paralysed and left a void to be filled up by the informal sector. Civil society was unable to gather the required muscle for reform and the impotent camarillas drone on with sterile palavers<sup>146</sup>. In these two countries only a military conqueror was able to defeat the corrupt regime and to re-install a new one-party system.

Most African states had become independent between 1955-1965. This was the time when the Cold War was at its "hottest". Some of the up to then rather insignificant countries became strategic domino's in the ideological and geopolitical rivalry between the superpowers. This context induced the superpowers to reach out and go shopping for the favour of the African elites with financial aid as compensatory manna. Foreign aid was forthcoming not so much on the basis of development criteria than with reference to the strategic and economic links and interests of donors. In this context foreign policy was the prevailing determinant of aid. The conditionality of the aid business at that time was dependent on alliance stability and material interest for the donor. In a certain number of African countries this caused a substantial '*geopolitical rent*' that formed a considerable part of the state budget. This dependency of the African elites and their rulers on the relationship with external donors, proved to be a key element in the changes of their political economy brought about by the end of the Cold War. All of a sudden aid became conditional on internal reform. In the new geopolitical context the Western donors insisted on good governance accompanied by democratisation. In the new geopolitical context of the 1990s the Western godfathers and donors could afford to insist on the moral standards of good governance.

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<sup>146</sup> R. Buytenhuis and G. Thiriot, *Démocratisation en Afrique au Sud du Sahara, (1992-1995)*, Bordeaux, 1995.



In the course of the last decade the state-system of postcolonial Africa has been a subject of intense study by political scientists, anthropologists and historians<sup>147</sup>. More than in the past, this academic literature takes into account the long-run historical processes and the socio-cultural context in which these postcolonial states and their political economy are embedded. Colonial rule, being by its very nature authoritarian, could not provide the ideal tutorship for democratic decision making. And after a short span of years the multi-party systems installed on the eve of independence broke down. The vacuum was filled up by one-party or no-party rule, with military or civilian 'big men' in power. The cross-fertilisation between modern authoritarianism and African tradition gave birth to a postcolonial patronage network on the basis of which internal tribute-money could be raised by politics. Depending on the angle from which such a system is looked at, this network may be labelled a predatory, patrimonial, clientilistic or prebendal state. In postcolonial Africa, politics became essentially a struggle over scarce resources. The French political scientist J. Bayart calls this practice *une politique du ventre*, or a politics of the belly. According to the patrimonial logic, power status and the major economic goods can be procured in the shortest and surest way by the political channel. The 'big men' who control and exploit the political machinery and the army, and through this also the offices of the state, are by this way in control of the material resources and of surplus production. They direct and regulate the clientilist redistribution in order to consolidate the subservience of their followers. In a recent study Stephen Ellis defines the patronage logic as follows :

'It is a pyramid in which power and prestige flow from the top downwards while wealth is simultaneously sucked from the bottom upwards ; wealth or opportunities for advancement are redistributed within clientilistic systems by the provision of gifts, commercial opportunities, and so on, to the supporters of political patrons'<sup>148</sup>.

In the first decades after independence, the political systems installed by the colonisers were gradually Africanised. The African values and norms took their revenge on Westernisation and remodeled the fabric of their society and the offices of the state. According to the logic of its African embeddedness, the state increasingly became a magnet for all facets of political and economic life ; consuming the attention of traders, industrial managers, financial intermediaries, farmers, teachers, traditional rulers and all other individuals or groups with social leverage. In such a generalised system of clientilist redistribution, the first victims are the logic of accumulation and the commitment to economic development. The required investments for the production of goods and services

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<sup>147</sup> J. Wunsch & O. Dele, *The Failure of the African State*, Boulder, 1989 ; M. Boornbos, 'The African State in Academic Debate : Retrospect and Prospect', *Journal of Modern African Studies*, n° 2, 1990 ; C. Coulon & D. Martin, *Les Afriques politiques*, Paris, 1991 ; J. Médard (ed.), *Etats d'Afrique noire : formation, mécanisme et crise*, Paris, 1991 ; P. Chabal, *Power in Africa*, London, 1992 ; R. Fatton, *Predatory Rule, State and Civil Society in Africa*, Boulder, 1992 ; J. Bayart, *The State in Africa : the Politics of the Belly*, London, 1993 (in 1989 published in French, *L'Etat en Afrique*) ; S. Berry, *No Condition is Permanent*, Madison, 1994.

<sup>148</sup> S. Ellis, "Africa after the Cold War : New Patterns of Government and Politics" in *Development and Change*, vol. 27, Oxford, 1996.

and its upgrading in the hierarchy of added-value was increasingly sucked by the prebendal client mechanism. With rather few exceptions, the state enterprises were run inefficiently as a result of mismanagement or by the tapping of the resources by a predatory state or by a combination of both. In due time economic decline was lurking behind the corner. In the 1980s the international markets for Africa's primary products became erratic and less promising. African countries suffered a decline in production, sometimes in absolute terms, sometimes in relation with population growth. Most states took refuge in the shelters offered by international institutions that were willing to provide credit and foreign aid. But the time of free-wheeling geopolitical rent was running out. The programs of structural adjustment imposed by the Bretton Woods institutions not only aimed at a retrenchment of the state, they also brought new actors on the stage, namely the NGOs and civil society.

Most African states were authoritarian but at the same time too weak to respond to the prerequisites of economic growth. Despite formidable coercive powers the African rulers were unable to enforce capital accumulation because they were unable to resist the demands of political clientilism. The bias of their political elites toward urban development has diverted resources away from the agricultural sector, which still is the major source of added-value in most African countries. The amounts spent on prestige industrial or agro-industrial projects (white elephants) ended most of the time in catastrophe by the widespread abuse of power and funds. The first half of the 1980s was witness of different patterns of informal disengagement from the state and the circuits of the formal economy. The growth and spread of the informal economy filled up the void as the formal links weakened. This process of indigenisation functioned as a refuge mechanism against the breakdown of modernisation. It enabled the marginalised groups of the population to survive.

For the sectors of public utilities like education and health-care the informal channels of fund-raising sponsored part of their functioning as the provision of funds by the state grew thinner or collapsed altogether. The survival strategy deployed by the sector was an indigenous survival strategy in a context of decline. As such it proves the vitality of the base communities to handle their problems by their own means. In some publications the informal sector was attributed with democratic and egalitarian properties functioning on the logic of solidarity. In others, on the contrary, they were downgraded as a mafia of smugglers and black marketeers<sup>149</sup>. In the second part of the 1980s when the repressive capacity of the authoritarian state weakened, new actors like the leaders of the emergent civil society entered the scene. Civil society is defined as the realm of organised social life independent of the state and concerned with public communitarian or collective (in contrast to private) goals and needs. The most profiled groups of civil society are trade unions, organised business, socio-cultural associations, churches, NGOs and all other

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<sup>149</sup> The informal sector is a widespread phenomenon in the development world. For a fair sample of the voluminous literature on the subject, see : H. De Soto, *el otro sendero : la revolución informal*, Bogota, 1987 ; B. Lautier, *L'économie informelle dans le Tiers Monde*, Paris, 1994.

groups who are able to muster countervailing force to the power of the state. While state power acts along a top-down line, these new actors on the scene stood for a bottom-up strategy in their drive for political and economic liberalisation. In this domain they have acted as catalysts at the grass-root level<sup>150</sup>. In the widespread disillusionment with failure of the postcolonial state the Western constituencies and also professionals of development called for a more prominent and forceful development role on behalf of civil society and its NGOs. In the new political climate of the 1990s this call was heard and the donors embarked upon the gradual NGO-isation of aid.

## 2. The World Bank's Hour

There is no other place on earth where the World Bank ambitions to have such a decisive influence than in Sub-Saharan Africa. Since the 1980s while they faced mounting economic problems their governments were obliged to accept the structural adjustment programs in exchange for official aid. The first generation of these programs was in tune with the pure neoliberal view of development and recommended open, export-oriented growth on the basis of largely unregulated markets<sup>151</sup>. Besides a drastic retrenchment of the state in the management of the economy and sound macro-economic policies, the Berg-report, as it is often called, recommended 'to get the prices right' in the micro-economic sphere. In particular this first report advised the removal of the policy bias against agriculture by means of reform in price, exchange rate and state marketing policies. In its strict technical market-view it passed by the most pressing and obvious problem, namely that it was the political mess and not only technical deficiencies that bedevilled these economies. The structural adjustment programs went ahead and involved profound changes in the allocation of financial aid for the production and distribution of resources. All this with few winners and a lot of losers, namely : government officials and public sector workers, party bosses, manufacturers, farmers and most of all the poor groups. The programs did not live up to the expectations and caused a soul-searching between the most influential tenors of the bank's economists. The disenchantment led to a second generation of programs which relied less on the economics of autonomous 'trickle down' and came out for directive action. In fact they recommended "political correct" specific stimuli of assistance in favour of the poor<sup>152</sup>.

At the very moment when the Berlin wall was tired down the World Bank came out with a 'third generation' policy view for Africa. Here the emphasis was on the socio-political prerequisites for sustained development, to wit : political liberalisation, empowerment of

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<sup>150</sup> W. Oyugi and A. Gitonga, *Democratic Theory and Practice in Africa*, Nairobi, 1987 ; M. Bratton, "Civil society and associational life in Africa", *World Development*, 3, 1989 ; D. Woods, "Civil Society in Europe and Africa : limiting state power through a public sphere", *African Studies Review*, 3, 1992 ; J. Harbeson, *Civil Society and the State in Africa*, Boulder, 1994.

<sup>151</sup> World Bank, *Accelerated Development in Sub-Saharan Africa*, Washington, 1981.

<sup>152</sup> G. Cornia, R. Jolly and P. Stewart (eds.), *Adjustment with a Human Face : Protecting the Vulnerable and Promoting Growth*, Oxford, 1987 ; S. Kayizzi-Mugerwa and J. Levin, 'Adjustment and Poverty, A Review of the African Experience', *African Development Review*, 2, 1994.

the people, greater accountability of government by means of good governance<sup>153</sup>. With the emphasis on administrative probity and efficiency ; on effective legal, judicial and regulatory mechanisms, especially property rights and contracts ; with the recommendation for informational openness and transparency including a free press, the Bank entered political waters. This betokens a new turn in perspective and a considerable broadening of development ideology. *Here the emphasis is not on less but on better or on more efficient government.* With its insistence on reinvigoration of local government and the fostering of community participation, or in other words on the importance given to civil society and its NGOs, the reports opened a novel agenda with populist overtones. One of the new and prior goals of development, as the Bank proclaimed in this blueprint, is ‘to empower ordinary people to take charge of their lives, to make communities more responsible for their development and to make governments listen to their people’. The fostering of a more pluralistic institutional structure - including NGOs - is seen to be a means toward the above mentioned ends. With the recommendation of accountability, legitimacy, transparency, participation and empowerment of the people, the staff of the World Bank opens the horizon. It crosses the borders from the strict economic domain and engages in thematisations which belong to political science and sociology. The fact that a powerful international institution like the World Bank embraced the ideals of democratisation and decentralisation, and emphasised the importance of civil society were clear signals to the oppressive and corrupt regimes that the times had changed.

The focus on civil society, grass roots movements and NGOs betokened that the Bank’s staff had absorbed the academic and even the more popular thematisations on these subjects. In taking this stance the Bank not only reflects the ‘new wave’ in development studies ; it also helps to produce, spread and globalise it. However, the Bank’s concept of good governance was also critically scrutinised by political scientists and sociologists<sup>154</sup>. The critical substance can be synthesised as follows :

- a. For Williams and Young the Bank’s idea of good governance, particularly the idea of empowerment and participation, are even in the democratic societies of the West recent constructs and ideals. They did not have cultural roots in Africa and even today these lofty ideals do not arouse the African masses.
- b. The Bank’s approach is in fact a revival of the modernisation (Westernisation) theory of the early postwar period. Modern sensibilities rule out some of the old colonial methods, but with the technical emphasis on disciplining, monitoring and watching the Bank reaches much deeper into African society and ambitions to

<sup>153</sup> World Bank, *Sub-Saharan Africa : from Crisis to Sustainable Growth*, Washington, 1989 ; id. *Governance and Development*, Washington, 1992. The Bank’s new interest in the politics of development showed again in its recent World Development Report with as title : *The State in a Changing World*, Washington, 1997.

<sup>154</sup> R. Sandbrook, *The Politics of African Recovery*, Cambridge, 1993 ; D. Williams and T. Young, ‘Governance, the World Bank and Liberal Theory’, *Political Studies*, 1, 1994 ; A. Leftwich, ‘Governance, the State and the Politics of Development’, *Development and Change*, vol. 25, 1994 ; D. Williams, ‘Governance and the Discipline of Development’, *The European Journal of Development Research*, 2, 1996.

mould them more than has ever been contemplated in modern times. Some of these programs vehicle a form of "moral" authoritarianism.

- c. Some of the critics strongly doubt the thesis that the introduction of a Western type of liberal democracy may reinvigorate economic growth. There are no historical precedents of such a development course.
- d. Still others criticise the over-enthusiasm of the Bank on the development capacity of civil society and its NGOs. We quote Fowler, a specialist in this matter and former NGO-professional : 'Experience to date suggests that there are few grounds for believing that NGOs in Africa will fare any better in promoting democratisation than their counterparts in Latin America. African NGOs are recognised to be organisationally weak and seldom truly indigenous or rooted within the mass of the population'<sup>155</sup>. Moreover, Williams and Young state that this lack of indigenous roots of the NGOs is not incidental for, we quote 'they share with Western constituencies not only a lack of interest but also contempt for cultural traditions that do not square with Western notions of 'rights' and 'justice'.

The African context offered an ideal platform for intellectual leadership to the Bank<sup>156</sup>. In the domain of economics and also in technical matters the professional staff of the institution is of excellent quality. They produce an impressive amount of papers and studies. A great number of these staff papers are of outstanding quality and most are published and reach the specialists on development around the globe. Moreover, the Bank is a pre-eminent employer of consultants in the development field. And as George and Sabelli pointedly state : 'This state of affairs coincides with the now greater dependency of academics, university departments and development institutes on income from consultancy work'. The same can be said of the NGOs who are increasingly integrated in local development projects sponsored by the Bank. In a great number of specialised and general topics (from water supply to good governance) the World Bank sets the agenda. It is also able to mobilise the material and intellectual resources to implement its projects. Since the end of the 1980s the World Bank has increasingly taken up a role of intellectual leadership in the field of development.

The future will show whether the increasing dependency of the university staff engaged in research subsidised by the World Bank will influence the thematisation on development in a positive or a negative way. But as it happens so often in history, the financial crises of the most dynamic emerging countries, namely the Asian tigers, changed text and context. In the wake of the questionable management of these crises by the IMF as well as by the World Bank, the intellectual canon as well as the strategy of both institutions known under the flag of *Washington Consensus* came under academic and political fire.

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<sup>155</sup> A. Fowler, "NGOs as Agents of Democratisation : an African Perspective", *Journal of International Development*, 3, 1993.

<sup>156</sup> S. George and F. Sabelli, *Faith and Credit : The World Bank's Secular Empire*, Boulder, 1994.

## CHAPTER XVIII : THE SURGE OF LIBERALISM AND GLOBALISATION

In the 1990s a series of ruptures in the ideological and geopolitical context produced a watershed of changes : the implosion of communism in the Comecon countries, the opening of China to market forces and a relentless surge of globalisation in the rest of the world. This systemic turn of the tide was driven by the global triumph of the neoliberal ideology over its former rivals. In the political spectrum of Europe and Latin America a notorious rightward shift took place. There the social democratic parties assimilated a good deal of the ideas and practices of the neoliberal creed. In Europe their platform was called the *Third Way*. And in Latin America it was labelled a move to “realistic” utopia. In the academic sphere a similar rightward trend occurred. The appeal of heterodoxy declined and the legitimization of orthodoxy moved centre stage. In this process “*text and context*” were dialectically entwined. The process of globalisation went hand in hand with a marked convergence toward the uniformisation of economic thought. In the French literature the evolving canon of development was named “*la pensée unique*” and in the Anglo-American publications this mainstream orthodoxy for the developing economies sailed under the flag of “*Washington Consensus*”<sup>157</sup>.

According to proponents it would be a misconception to see the neoliberal trend of the 1990s as simply a corrective political response to the mercantilism, welfarism and corporatism of previous decades. In their view neoliberalism is not only geared toward a retrenchment of the state. The new style of liberal political reason encourages government to actively create the legal conditions within which entrepreneurial and competitive conduct is able to flourish. Neoliberal government is pre-eminently economic government in the dual sense of less government and a political practice geared to securing the conditions for optimum economic performance. In the economic domain these principles served as a forceful legitimisation for the liberalisation of international trade, for deregulation of financial markets and for privatisation of state enterprises. In this frame of thought macroeconomic policy has to be sound and stable. Moreover, it was expected to play second fiddle to the pre-eminent microeconomics of the market forces. The staff of the World Bank, of the IMF and of WTO used their intellectual and institutional clout to break open the impediments and barriers created by national industrial policies of nation states. The major aim was the creation of a global market. The new geographical context was expressed in a novel vocabulary. The orthodox market policies of the core countries in the West would play as a locomotive for the catch-up strategy of the emerging market economies of the periphery and for the transition economies of the communist converts.

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<sup>157</sup> L. Taylor, “The Revival of the Liberal Creed : the IMF and the World Bank in a Globalized Economy” in *World Development*, n° 2, 1997.

In the wake of this systemic change a new cycle of development came to bloom, namely the *financiarisation* of the economy. As a result of liberalisation and deregulation of the markets in the United States herein followed by Europe and Japan, the financial superstructure of this triad flourished into a significant multiple in comparison with their national products. According to the statistics of the Bank for International Settlements their financial flows climbed at the end of the 1990s to a total of 25 times the volumes traded in the combined sectors of the real economy. In the wake of the extraordinary expansion of the credit and capital markets in the triad a massive flow of international direct investment, of bank credit and of portfolio capital flooded toward a relatively small number of the most promising emerging market countries and to the transition economies. Like in the triad the financial system of the emerging market economies underwent a systemic change by the fast expansion of the local banking circuits and fast growing stockmarkets. The financiarisation of their economy, assisted by international direct investment, by volatile short-term credit inflows and by foreign portfolio capital, initiated a problematic interaction between their credit, stock and currency markets<sup>158</sup>. Since the exchange rate of the emerging markets economies were pegged to the dollar the monetary authorities lost their grip on the evolution of their international terms of trade. The development and stability of the real economy depended in a higher and growing degree on the way in which the local financial superstructure absorbed, intermediated and channelled the flood of foreign credit and capital toward productive investment.

The emergence and expansion of a huge pool of internationally mobile and risk-sensitive financial capital had far-reaching effects on the functioning of the emerging markets. The financial superstructure dominated the real sector of the economy. And the gyrations of the prices of equities and of capitalisation volumes in the stockmarkets caused unforeseen shocks in the capital balance of their firms. Their international capital account, depending on the supply of foreign capital and on the risk sentiment associated with it, became the key problem, while in the former situation the current account, determined by the performance of the real economy had been the key variable. As a consequence the new style crises would not so much originate in the real sector of the economy but would become exchange rate and financial crises<sup>159</sup>.

The initial effects of the financial injections from abroad were positive. But as time went on the massive inflow of foreign credit and capital resulted in an unsustainable boom and finally in economic dislocation (an expansionary import drive, overvaluation of the real exchange rate, explosion of real estate prices, etc.) followed by speculative “bubbles” in

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<sup>158</sup> M. Aglietta, "La maîtrise du risque systémique", in *Economie Internationale*, n° 4, 1998 ; M. Knight, "Developing Countries and the Globalization of Financial Markets", in *World Development*, n° 7, 1998 ; D. Plihon, "La montée en puissance de la finance spéculative", in A. Cartapanis (ed.), *Turbulences et Spéculations dans l'Economie Mondiale*, Paris, 1996 ; A. Singh, "Financial Liberalisation, Stockmarkets and Economic Development", in *The Economic Journal*, May, 1997.

<sup>159</sup> G. Kaminsky & C. Reinhart, "The Twin Crisis : the Causes of Banking and Balance of Payments Problems", in *The American Economic Review*, June, 1999 ; D. Rodrik, "Who Needs Capital Account Convertibility ?", in *Essays in International Finance*, n° 207, Princeton, 1998.

the recipient countries. Their local financial markets were unprepared to manage the massive inflows from abroad, especially those of a volatile nature like short term bank credits and portfolio capital. And some of the best performing economies in the world like the tigers of Asia, followed by lesser stars like Russia and Brazil succumbed to a disturbing financial crisis. This new era of financial crises demonstrates how the underdeveloped financial sectors of the emerging market countries, exposed as they were to exuberant deregulation and inadequate risk assessment by international creditors and investors, can cripple the development of the economy.

In the aftermath of these crises a new cycle of thematisation set in. A great number of the thematisers now focuses the attention on the inherent instability of the rapidly but disorderly liberalisation practices and on the much needed reform of the international financial architecture<sup>160</sup>. The financial crises of the second half of the 1990s resulted in a more realistic and even a critical view of the neoliberal canon. The market mechanism is a key instrument for an efficient allocation of resources since it gives a free play to the entrepreneurial spirit. However, the financial crisis demonstrated that when markets are entirely liberalised, perverse “animal spirits” get loose. In order to achieve a more stable development, prudential practices and institutions are essential. Regulating institutions matter even as much as markets<sup>161</sup>.

In keeping with our thesis of the systemic changes in the international political economy we suggest to take the liberalisation of international markets as the independent variable rather than globalisation. The former draws the attention to the policy dimension of the determining force while globalisation could pass as a spontaneous worldwide extension of the economy. Globalisation is largely occurring as a result of conscious decisions to liberalise cross-border transactions in capital, credit, goods, services, people, information and business practices. Moreover, the free market school of thought proclaims to be the embodiment of the single best approach for all countries in a global financial system, where everyone is subject to the same rules. In the old time development models of the immediate aftermath of World War II the international constraints were seen as structural impediments for a balanced growth of the national economies. In today’s orthodoxy domestic policy error rather than unfavourable external conditions heads the list of explanation of poor performance.

In order to come to the crux of the matter the surge of free and worldwide movements of credit and capital could not have happened on the sole basis of ideas and neoclassical tenets. Powerful interests were also at work to spread production structures and capital markets worldwide. The production in local markets by foreign affiliates of multinational firms has largely superseded the total volume of international trade and the profits that

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<sup>160</sup> B. Eichengreen, *Toward a New International Financial Architecture : a Practical Post-Asia Agenda*, Institute for International Economics, Washington, 1999 ; M. Feldstein, "Refocusing the IMF", in *Foreign Affairs*, March-April, 1998.

<sup>161</sup> S. Burki & G. Perry, *Beyond the Washington Consensus*, World Bank, Washington, 1998.



result from foreign direct investment form a substantial and growing part of total profits in the balance sheets of multinational industrial firms and banks<sup>162</sup>. In our financialised economies the power of decision has shifted from the managers toward the shareholders. Since the second half of the 1980s this model of shareholders control has spread first from the United States to Europe and in a second move to the emerging market countries and to the transition economies. The expanding stockmarkets in the core economies of the centre as well as in the periphery functioned as hothouses for this systemic change.

In the decade of the 1990s capital liberalisation has replaced trade liberalisation at the top of the policy agenda. In this shift of emphasis the growing international indebtedness of the United States loomed large. In the second half of the 1990s the foreign debt of the United States grew to a volume amounting to ten times the foreign debt of Brazil. In the ongoing controversy over international capital flows the well-known American political economist Robert Wade bluntly stated that on account of its low rate of national saving the richest country in the world, namely the United States needs to tap the rest of the world's savings<sup>163</sup>. In this paradoxical situation the centre of the world's capital markets, namely Wall Street, is able to transform the foreign-deficit of the US into a highly profitable business. The emerging market countries were manifestly unable to achieve this "*tour de force*". In several think tanks of the periphery this pattern of free capital movements was denounced as a process of asymmetrical globalisation. In the boom-and-bust cycle in asset markets, the weakness of the financial system and the blunders of the global regulatory institutions produced a shockwave of self-reflection and criticism. In the post-crisis thematisation the intermediary transmitters of financial globalism, especially the international bankers and the guru's of stockmarkets found themselves in the tick of controversy. Georges Soros, a notorious guru of Wall Street wrote a book in which he openly confessed that the system of global capitalism itself is the main cause of financial fragility<sup>164</sup>.

In the critical assessment of the failures in the surveillance by the international Bretton Woods institutions and more so in denouncing the blunders of the IMF in the handling of the financial crisis, a great number of scholars and policy makers joined the chorus clamouring for reform. Influential opinion makers from the centre as well as from the periphery denounced the rescue plans of the IMF as inept and its far-reaching tutelage of the countries in crisis as a form of neocolonialism. Looked at from the South of the world the intellectual and cultural arrogance of the IMF received more than one blast. From the South Letter we take the following quotation : "*An equally difficult barrier (in the negotiations) lies in its in-bred, inward looking and elitist institutional culture, homogenised by educational experience and background of its professional staff. They are much more comfortable in the theoretical world of assumed rationality and economic logic than in the practical messy world of politics and the reconciliation of a multiplicity of*

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<sup>162</sup> United Nations, *World Investment Report*, New York, 1998.

<sup>163</sup> R. Wade, "The Coming Fight over Capital Flows", in *Foreign Policy*, Winter, 1998.

*diverse interests... Regardless of their diverse nationalities, they think alike, almost as if they have been cloned*"<sup>165</sup>. This may seem a harshly worded statement. But our own saga on development theorising points to the same problem, namely that the West has not yet learned to understand and respect the cultural "others". In many of the postwar development models "*text and context*" were worlds apart. The guidance offered by development economists and international institutions was in its major part inspired by so-called universal principles of "*theory-and-practice*". In the multicultural world of ours this misconceived canon of universality proclaimed by Western scholars and policy makers is to my mind one of the major reasons for the limited development success of the last half century.

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<sup>164</sup> G. Soros, *The Crisis of Global Capitalism*, New York, 1998.

<sup>165</sup> P. Mistry, "Background and Barriers to Reforming the IMF and World Bank", in *South Letter*, n° 2, 1999.

## CHAPTER XIX : A FLASHBACK ON DEVELOPMENT THEORY

Since 1945 an impressive amount of development studies has been published. The period from 1945 to the beginning of the seventies produced a high tide. Development theorising imposed and manifested itself as a specific and specialised branch of economics, sociology and political science<sup>166</sup>. In the period of the pioneers a great variety of contrasting theories and models were formulated. Reformists, marxists, structuralists and theoreticians of the dependency school debated with gusto and ideological verve on the best path toward welfare and development. The theoreticians of dependency and unequal exchange and still more so the marxists proclaimed that a strategy of delinking from capitalism was the best way. The reformist growth economists on the contrary opined that a process of physical and human capital formation, assisted by a judicious steering by the state would do well enough. In their schemes the infant industry argument and protective measures were instrumental for an initial strategy of import-substitution industrialisation.

In the second half of the seventies, after a series of setbacks in the capitalist as well as in the socialist Third World, the heterodoxies that were chapter and verse in the aftermath of World War II went in retreat. The emphasis upon the inadequacies of markets in general and international trade in particular lost appeal against the neoclassical counter-revolution. The new development thinking emphasised export orientation as an antidote to the inward looking strategy and relied on the market mechanism "to set the prices right". The new approach rejected state intervention since in this view government was the problem rather than the solution. Reform and structural adjustment meant privatisation and fiscal retrenchment. In the ensuing country convergence to these neoliberal standard norms "*la pensée unique*" became hegemonic. Under this pressure of international convergence, development theories lost their autonomous status. Moreover, they are now more formal and less sweeping than in the time of the pioneers. In keeping with the general trend in economics the new style development models sacrificed the strategic vision of the past. A great number of these topical and technical exercises produce an impressive set of sophisticated empirical findings at the microlevel. In most of them the vision is completely lost. Since the 1980s development theory underwent a process of gradual absorption by general theory. And in an incisive review article Albert Fishlow conceded with some nostalgia that economic development theory is now in search of itself<sup>167</sup>.

In the wake of the financial crises of the emergent market countries the neoliberal canon came also under fire. In their review of development theory two well-known scholars in the field of development, namely Irma Adelman and Cynthia Taft Morris, bluntly stated that "the purely neoclassical Washington-consensus theories apply fully mainly to the

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<sup>166</sup> C. Wilber, "The Methodological Foundations of Development Economics", in *World Development*, n° 2, 1986 ; Ch. Oman & G. Wignaraja, *L'évolution de la pensée économique sur le développement depuis 1945*, OCDE, Paris, 1991.

<sup>167</sup> A. Fishlow, "Review of Handbook of Development Studies", in *Journal of Economic Literature*, December, 1991.

handful of developing countries currently engaged in the final process of transition to OECD status"<sup>168</sup>. This line was written before the financial crises of the Asian tigers who were acknowledged to be eager disciples of the export orientation strategy and of financial globalism. The post-crisis questioning of "*la pensée unique*" may open a new horizon for the rejuvenation of development theory. To stir things up Irma Adelman and her colleague put the finger on the sore spot of development theorising ; we quote "development theories both old style and new, have suffered from misplaced universality and from tunnel vision... they must therefore be changed to take full cognisance of historical and situational relativism and of the multifaceted nature of the development process". We enthusiastically share this paradigmatic standpoint. In the postmodern cultural nationalism of our time the broadening of the horizon by an inclusion of the neglected context, to wit the historical, cultural and ethical dimensions, offers a promising future for the development of development theory.

Development history informs us that theories, policies and institutions are context specific and do not transfer well to other environments and circumstances. From the history of ideas we have learned likewise that canons like all products of the human mind are up to a certain degree dependent on context and time. Thus they are coded by the values, the norms, the paradigmatic modes of thought and the historical consciousness prevalent in the society from which they spring. Canons like all human artefacts live a cycle of birth, growth and flourishing followed by decline and re-interpretation. A crisis mood elicits self-reflection conducive to a widening of the intellectual horizon. In the aftermath of the forceful swing of the orthodox canon that failed, new themes and more promising theoretical perspectivations may flourish. For development theory the times are ripe for a new beginning.

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<sup>168</sup> I. Adelman & C. Taft Morris, "Development History and its Implications for Development Theory, in *World Development*, n° 6, 1997.

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